



MALLING & CO MARKETS

# MARKET REPORT SUMMER / FALL 2017



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# THE BULL KEEPS CHARGING

In our previous market report, we argued that the long-lasting yield compression was coming to an end, and that it was time to generate value through property development and increased rent levels. As a pleasant surprise, we observed the latter a little earlier than predicted in the previous report, at least for centrally-located offices. We now see that office rents are increasing as expected, and with a helping hand from economic growth and increased employment outlooks, the market now seems to be better than it has been for many years.

We recently launched our new quarterly transaction survey, where anonymous market players are asked their opinions on market yields. The consensus is that market players expect a marginal increase in yield levels next year. However, with good momentum in the transaction market and rising rents combined with increased economic growth, we can already predict with a high level of certainty that 2017 will be another good year for commercial real estate.

Regarding foreign investors in the Norwegian market, an increasing number of international investors are now looking towards the Nordic countries, and the latest report from our alliance partner Savills, entitled “Nordics, the new core” should speak for itself. The current geo-political situation throughout the world, and in Europe in particular, provides even greater arguments for investing in Norway, through both equity and debt.

The strong development we observed in the rental market at the end of 2016 continues, and we are experiencing high demand for good office facilities. We see that low construction activity, high conversion and a limited supply of quality properties in the city centre are factors which are helping to push rents upwards. That being said, tenants continue to be demanding and tough negotiators, keeping brokers hard at work to sign deals. The deal isn't done until the ink is on the paper!

In this biannual forecast, it is difficult not to mention that after a period of being sizzling hot, the residential market now seems to be cooling. New mortgage regulations and increased newbuilding, along with lower net migration to Oslo, may have led to the cooldown in the residential market that we are now witnessing. It will be interesting to see how the market develops towards summer and throughout the rest of 2017, and how it will affect appetite for new residential projects among investors.

We hope you enjoy our latest market report. Remember that Malling & Co is here to support you in all your commercial real estate needs, including transaction support, tenant representation, development, energy and environment services, research services, rental services, valuations, and property and asset management.



PETER T. MALLING SR.  
CHAIRMAN — EIENDOMSHUSET MALLING & CO



## MACRO – NORWAY

### Increasing growth ahead

The economic slowdown, caused by cuts in oil-related investments and activity since the end of 2013, now seems to be behind us. After a 0.80 % mainland GDP growth in 2016, estimates for growth over the coming years are 1.80 % for 2017, and above 2.0 % in the subsequent three years (Statistics Norway). An expansionary fiscal policy and reduced interest rates, and the depreciation of the Norwegian krone, are factors that have dampened the negative effects induced by the ever-important Oil & Gas sector.

#### GDP growth

SSB estimates from March 2017 indicate that the mainland GDP growth will be 1.8 % in 2017, 2.4 % in 2018, 2.2 % in 2019 and 2.1 % in 2020. In the latest update from April, the DNB Markets forecast is slightly lower at 1.6 % growth in 2017, 1.7 % in 2018 and just below 2.0 % growth for the following two years. The Norwegian Central Bank Regional Network Survey 1/2017 shows increased optimism among the network of companies, and supports the forecast of higher growth. The Oil & Gas sector expects a moderate decrease in production, but this is somewhat more positive than that seen in previous surveys. The first quarter national accounts revealed on 16 May showed first quarter growth of 0.6 % (q/q), above expectations of 0.4 %. However, the sharp rise in housing prices has triggered higher construction activity, and a potential cooldown in residential investments may have a negative effect on GDP growth.

#### The national budget

The revised national budget presented on 11 May showed a decrease in the use of The Government Pension Fund Global (GPF) of NOK 4.7 billion, reducing

the oil-corrected deficit to NOK 220.9 billion. GPF spending corresponds to 2.9 % of the fund's current value, just below the new long-term limit of 3.0 %.

#### Oil price

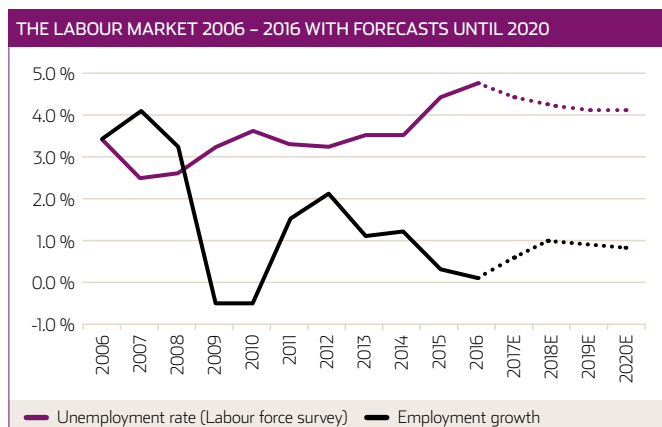
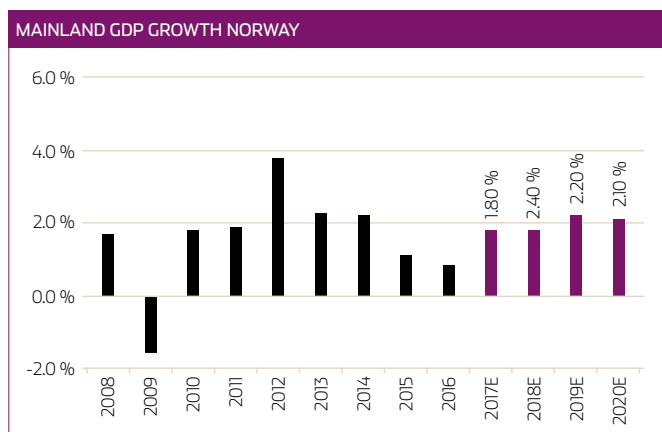
Since our last report released in November 2016, the Brent Spot crude oil price increased from just below USD 50 per barrel to around USD 55 per barrel, where it stayed until the first week of March. At the time of writing (22 May), the crude oil price is back at just below USD 54 per barrel, well above the YTD low of around USD 48 per barrel. The market is pricing Brent crude delivery in 2018 and 2019 at around USD 54 per barrel. OPEC and Russia's plan to further extend production cuts may push the oil price upwards if this is adopted at the OPEC meeting on 25 May.

#### Oil investments

Oil-related investments peaked in 2013, and have declined continuously since the fourth quarter of 2013. The latest figures issued by Statistics Norway show a further estimated decrease of 13 % in 2017, compared to expected figures for 2016 one year earlier. The current estimate for investments in Oil & Gas extraction and pipeline transport for 2017 is NOK 149.4 billion. Statistics Norway will publish new estimates on 24 May (after the editorial date of this report).

#### Key policy rate

The Norwegian Central Bank has kept the key policy rate at 0.50 % since March 2016. The latest estimate from the Monetary Policy report suggests a flat development in the coming period, with expectations of a flat rate until the end of 2018, with a gradual increase from 2019. Accelerating housing prices, fuelled by record low interest rates, have been addressed as a risk factor for financial instability, and served as an argument for cautiousness regarding decreasing the key policy rate further.



**MAIN FIGURES (ANNUAL PERCENTAGE GROWTH UNLESS OTHERWISE NOTED)**

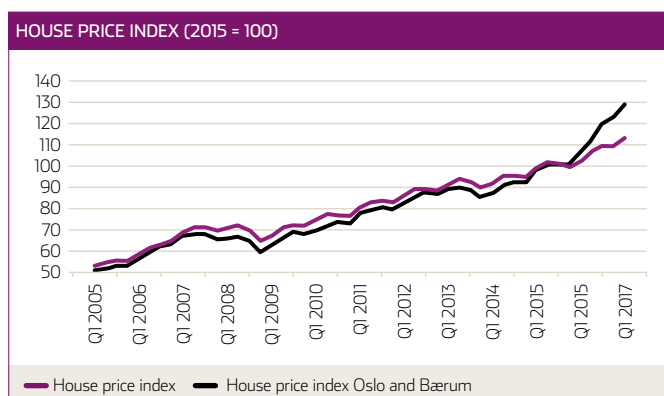
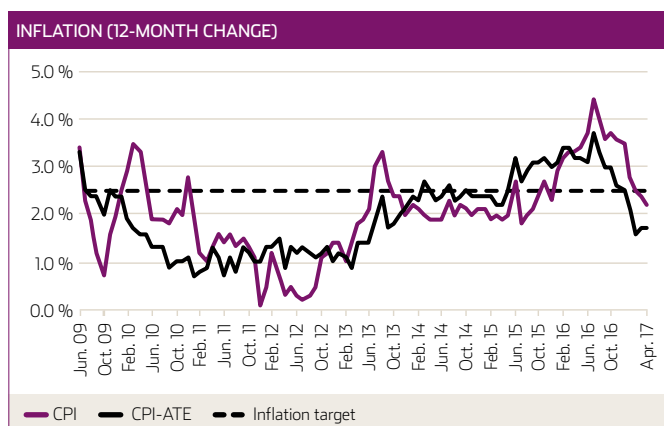
	2016	2017E	2018E	2019E	2020E
Consumption in households etc.	1.6	2.2	2.6	2.3	2.1
General government consumption	2.3	1.7	1.7	1.9	2.5
Gross fixed investment	0.5	3.4	1.4	2.0	0.8
- Extraction and transport via pipelines	-14.7	-7.0	-0.1	6.2	1.9
- Gross investments mainland Norway	5.9	6.0	1.8	1.0	0.6
Exports	-1.2	0.5	2.0	2.2	3.1
- Crude oil and natural gas	-8.2	2.2	4.0	4.1	4.4
- Traditional goods	3.8	0.4	-0.1	-0.1	1.6
Imports	0.3	2.5	2.2	2.9	2.7
GDP	1.0	1.5	1.9	1.8	2.0
Unemployment rate (level)	4.7	4.4	4.2	4.1	4.1
Employed persons	0.1	0.6	1.0	0.9	0.8
CPI - yearly growth	3.6	2.0	2.1	2.2	2.3
Core inflation (CPI-ATE)	3.0	1.7	2.0	2.0	2.0
Wages per standard man-year	1.7	2.3	3.1	3.1	3.9
Real after-tax lending rate, banks (level)	-1.6	-0.1	-0.1	-0.1	-0.1
NOK per euro (level)	9.3	8.9	8.9	8.9	8.9
Current balance (Bn. NOK.)	152.2	228.9	255.6	280.6	319.6
Current balance (in % of GDP)	4.9	6.9	7.4	7.6	8.4

Source: Statistics Norway (March 2017)

Source: Statistics Norway (March 2017)

Source: Statistics Norway (March 2017)





## CPI

The April 12-month CPI and CPI-ATE were 2.2 % and 1.7 % respectively, below the current inflation target of 2.5 %. CPI expectations over the next five years are at around the target of 2.5 %, although economists in the financial sector expect inflation of around 2.0 %. The past year's high inflation figures observed due to the weakening of the Norwegian krone now seem to be over.

## Currency

While Statistics Norway expects a relatively flat development of exchange rates over the next three years (NOK/EUR at 8.9), DNB expects the NOK to appreciate against the EUR and USD in the coming years. As at COB on 22 May, the EUR traded at NOK 9.37, USD at NOK 8.34 and GBP at NOK 10.85.

## Unemployment

According to the Labour Force Survey (LFS), the unemployment rate has decreased since it peaked at 5.0 % in July 2016 (average of June-August), to 4.3 % in February (average of January-March). The register-based unemployment figure from the Norwegian Labour and Welfare Administration (NAV) was 2.8 % in April, down from 3.1 % one year ago. Gross unemployment (including job seekers on initiatives) shows a decreasing trend and is now at 3.6 %. However, the decrease in unemployment is mainly explained by reductions in the workforce, since unemployed persons typically exit the workforce (e.g. starting or extending studies) rather than staying unemployed. A working group assigned to study the increased differences between NAV-registered unemployment and the LFS results has concluded that 90 % of the differences are explained by young people (aged under 40), who do not have the same right to receive daily unemployment benefits. Consequently, they are less motivated to register with NAV. Companies that stopped hiring, rather than discharging workers, have left young, unexperienced candidates unemployed, affecting the two indicators differently.

## Employment

The registered number of employed persons increased by 4 199 in Q4 2016, compared with Q4 2015. The registered number of employed persons in Oslo alone increased by 5 798, indicating a strong increase in Oslo compared with the rest of the country (implying a negative development in other parts of the country). The LFS study from Statistics Norway indicates flat or slowly increasing employment over the past few months. According to the Q4 Manpower Net Employment Outlook Survey and the Regional Network Survey by the Norwegian Central Bank (1/2017), companies have become more positive towards increasing their workforces in the coming quarter. The most recent business barometer from SR-Bank also shows a more optimistic future for the oil regions in Western Norway.

## Wages

With a nominal wage growth of 1.7 % in 2016 leading to a negative real wage growth of -1.8 %, Statistics Norway is expecting a wage growth of 2.3 % in 2017, which is just above the CPI forecast of 2.0 %. The wage growth is expected to increase to 3.1 % in 2018 and 2019 and 3.9 % in 2019.

## The stock market

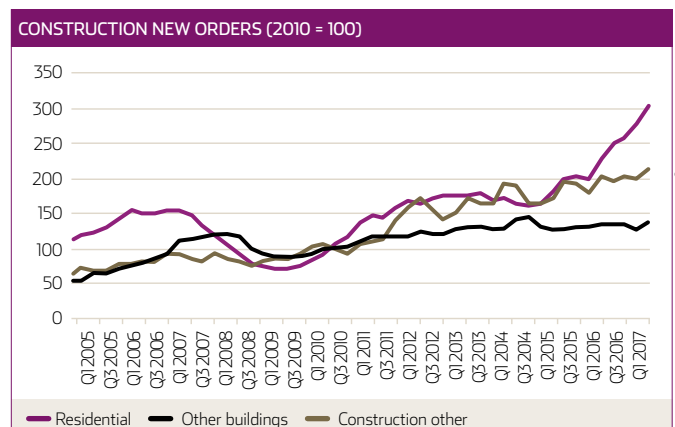
The Oslo Stock Exchange broad index (OSEBX) started the year just below 700 points and reached an all-time high of 728 (COB 16 May). The OSEBX index is currently (22 May) at 724 points, up almost 5 % since the beginning of January.

## Residential prices

Residential prices in Oslo, which have been growing stronger than those in the rest of Norway throughout 2016, are now cooling with a 12-month price development of 20.7 % (April). A strong increase in construction and less net immigration to Oslo, accompanied by an Oslo-specific loan-to-value limitation of 60 % aimed at investors and a multiplier limit of five on gross personal income, seems to have effectively stopped the market from growing at the same pace as before. The risk of a correction has become higher, but most forecasts suggest a relatively flat development over the coming years. Statistics Norway expects residential prices to increase by 0.6 % in 2018, and then drop by 1.5 % and 2.1 % in 2018 and 2019 respectively for the whole country. The cooldown in the Oslo market should also help to soothe concerns of increasing household debt and the risk of financial instability in discussions concerning the setting of the key policy rate.

## Consumption growth

According to Statistics Norway, reduced employment and a drop in real wages have contributed to a modest growth in household consumption of 1.6 % in 2016, but consumption is expected to increase by 2.2 % in 2017 and 2.6 % in 2018. Positive changes in real income in the coming years, in addition to higher employment, will most likely lead to higher consumption growth.



## MACRO – GLOBAL

### Gaining momentum – but risks remain on the downside

According to the IMF, global growth in 2017 is projected at 3.5 % on the back of a long-awaited cyclical recovery in manufacturing and trade, as well as confident financial markets. The momentum is expected to persist, with a further increase to 3.6 % in 2018. However, essential structural impairments continue to hold back a stronger recovery, and the permanency of risk remains skewed to the downside, especially over the medium term. National issues such as low productivity growth and inequality have in some instances exerted pressure for domestically favourable policies in certain advanced economies. Such policies threaten global economic integration and the globalised economy that has fuelled a high-growth world economy, especially for emerging markets and developing economies. Sound economic policies continue to be a leading factor in minimising downside risk and securing global economic recovery. Forging credible strategies to handle public debt in a sustainable manner remains a key challenge for many countries and regions, and a renewed multilateral effort is required in order to handle the mutual challenges in an integrated global economy.

#### Sweden

The pace of expansion of Sweden's economy is projected to moderate to 2.7 % in 2017, and 2.4 % in 2018 (IMF). While these are still relatively solid figures for an advanced economy in today's economic climate, they represent a slowdown from the very strong growth in 2015 and 2016. This is partially a result of the normalisation of public consumption and moderation of high investment growth, which is outweighing the positive contribution from a projected strengthening of private consumption. Inflation in Sweden has increased and is now at the Swedish Central Bank (SCB) target of 2.0 %, but this is highly representative of the paradox many economists and analysts are observing in Sweden, where the SCB is very concerned with the long-term pressure on inflation. However, in addition to increasing inflation, they are also observing above-trend GDP growth and unemployment below the long-term average, and continue to exert quantitative easing and keep the key policy rate at a record low – 0.50 %.

#### The Eurozone

With the rest of the EU member states on the edge of their seats, the French people took to the polls in what was perceived as the definitive day of judgement for the future of the European Union. With a convincing victory for Macron, the future of the Eurozone seems brighter than it has done for a very long time, even without Britain. The European Central Bank (ECB) is keeping the key policy rate, the deposit rate, stable at -0.40 %, and signalling that interest rates will remain at this level or possibly even lower for an extended period – and longer than the EUR 60 billion per month quantitative easing program (APP) is scheduled to run (at least until December 2017), if necessary. A slight reduction in the downside risk has strengthened the ECB's belief that data observations of positive cyclical growth will be stronger, and encompass more of the Eurozone than was previously expected. However, the ECB keeps stating that the outlook for inflation remains unchanged, and that inflation is still some way away from the 2 % target with no signs of the gap closing in the near term. Deflation, however, is no longer a concern, and this risk has all but vanished. Analysts believe that the current interest rate level will remain stable until the spring of 2019, and that the quantitative easing program will have the same duration, while the monthly figure will gradually decrease over the same period. The Eurozone GDP growth projections from the IMF are now at 1.7 % for 2017, and 1.6 % for 2018.

#### The UK

Article 50 has officially been triggered, and all signs regarding negotiations for the withdrawal of the UK from the European Union point to a long and arduous task. A further indication of the tumultuous task at hand is the announcement of a new election, to be held three years ahead of schedule, to unify the parties and gain a clear mandate from voters regarding how to handle negotiations for a definitive Brexit. The Bank of England (BoE) has kept the key policy rate stable at 0.25 %, and is continuing the quantitative easing program totalling GBP 435 billion as previously. The BoE's view is that the activity level will drop off going forward, and there are already obvious signs of a slowdown in consumer-related sectors. Projections from analysts point towards an even quicker reduction in inflation to below the BoE's target of 2.0 %, and that growth will also be weaker than the BoE is forecasting. This will ensure that interest rates remain low, and that an increase is unlikely over the next few years.

#### The US

The US is currently the leading growth engine of the world economy. The US economy has been displaying strong figures across the board, with the exception of GDP and private consumption during the winter months. However, evidence points towards temporary effects, rather than a lasting shift in growth as seen over the past few years. Inflation is close to the 2 % target and seems robust, and there is high consumer confidence and increases in the stock market and wages. Further driving the economy is the fact that employment is on the rise, while unemployment continues to drop and is currently at 4.4 %. Analysts believe that the evidence for the FED is strong enough to permit an increase of 25 bps in the key policy rate to the range of 1.00-1.25 % at the FOMC meeting in June, and in addition expect an increase of another 25 bps in September. The growth of the US economy, and the belief that interest rates will be subject to upwards pressure, is also what caused the drive in long interest rates from the summer of 2016 until the end of the year.

ANNUAL GDP GROWTH (PERCENT)	2016	2017E	2018E	2019E	2020E	2021E
Global	3.1	3.5	3.6	3.7	3.7	3.7
The US	1.6	2.3	2.5	2.1	1.8	1.7
EU 28	2.0	2.0	1.8	1.8	1.8	1.7
The Eurozone	1.7	1.7	1.6	1.6	1.5	1.5
Advanced economies	1.7	2.0	2.0	1.9	1.7	1.7
Emerging and developing Europe	3.0	3.0	3.3	3.2	3.4	3.3
Germany	1.8	1.6	1.5	1.4	1.3	1.2
France	1.2	1.4	1.7	1.7	1.8	1.8
The UK	1.8	2.0	1.5	1.6	1.9	1.9
Sweden	3.3	2.7	2.4	2.2	1.7	1.7
Denmark	1.1	1.5	1.7	1.8	1.9	1.8
Italy	0.9	0.8	0.8	0.8	0.8	0.9
Japan	1.0	1.2	0.6	0.8	0.2	0.7
China	6.7	6.6	6.2	6.0	5.9	5.8
Russia	-0.2	1.4	1.4	1.5	1.5	1.5
Middle East and North Africa	3.8	2.3	3.2	3.2	3.3	3.4

Source: IMF World Economic Outlook April 2017

**MICROSOFT CO-LOCATION / BJØRVIKA**

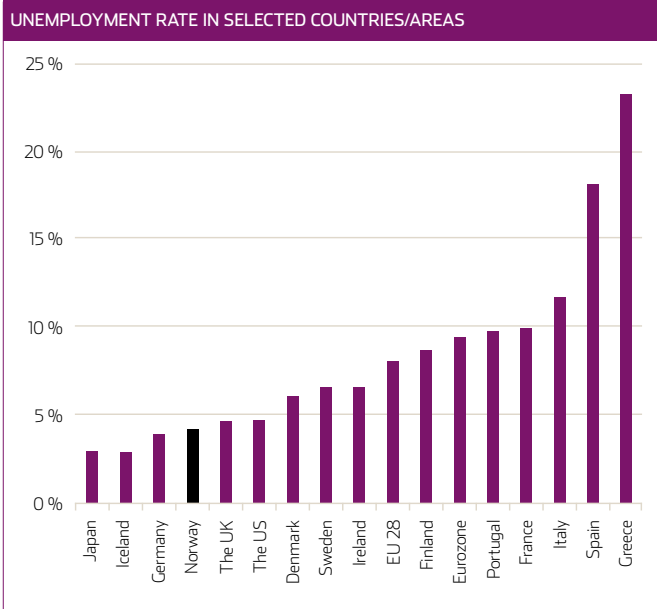
Malling & Co Leietakerrådgivning assisted Microsoft in the search for new office premises and the signing of a lease agreement for around 9 600 m<sup>2</sup> in Bjørnvika, Oslo.

Illustration: a-lab / OSU



**Emerging markets**

Over the past six months, several years of slowing growth rates in emerging economies have turned into surprising key indices, coming in above projected levels. The figures have been observed across a wide set of regions and sectors. The fundamental drivers seem to be rooted in increasing commodity prices, increased growth rates experienced by trading partner countries, and an increased risk appetite among global investors. Worth noting in this positive image of the emerging economies is the strength relative to previous growth periods, since analysts believe this will be weaker than has been usual over the past 20 years. Furthermore, the unsynchronised growth between countries according to their relative status of dependence on commodities or trade will be evident in how well they fare in the coming years. Among the countries that will struggle most are former growth winners such as Brazil, Turkey and Malaysia. China will be more moderate than previously experienced, and due to their size and key position as a trading partner for many of the other emerging markets as well as advanced economies, a moderating factor for the potential growth of many of the other countries usually regarded as high growth winners in the global marketplace. India, on the other hand, is perhaps the emerging market with the highest potential for growth, and projected to be the growth winner in the coming years.





# OSLO OFFICE MARKET

## Employment and demand for office space Optimistic employment outlook

As pointed out in the Macro section, economic growth in Norway has started to moderately increase. We are now seeing signs of recovery in the employment market, with a decreasing unemployment rate and a more optimistic outlook for employment growth on a national level in the near future. However, many of the sectors expecting an increase are not sectors that typically generate high demand for office space. In terms of geography, the county of Rogaland (including Stavanger) has moved from negative to positive in the annual survey from NAV (Norwegian labour and welfare administration). This is congruent with several other studies showing a more positive business sector in this region, along with slightly increasing housing prices. Oslo is still doing well, but is slightly worse off when compared to last year's result. Akershus (the county surrounding Oslo) is still number one in terms of a positive outlook for employment in the NAV survey. Overall employment at country level is expected to grow, and unemployment seems to be stabilising.

### Unemployment on a downward trend

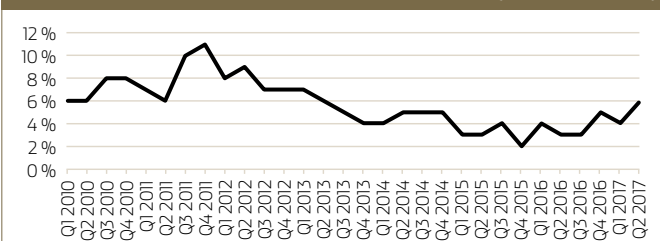
Looking at unemployment figures from both NAV (register-based) and Statistics Norway (survey-based), the unemployment rate is clearly on a downward trend in both relative and nominal terms. However, much of this decrease is due to a reduction in the workforce, not an increase in employment. The more positive employment outlook indicated in

surveys of hiring expectations conducted by NAV, Manpower and the Norwegian Central Bank suggest that employment will increase and contribute to a further reduction in unemployment. Register-based unemployment is now at 2.8 % for the country, 2.9 % for Oslo and 2.5 % for Akershus.

### Increased positivity regarding employment

Over the past few years, downsizing within the Oil & Gas sector has contributed to low economic growth, and employment predictions at country level have been weak. However, we are now seeing that companies are considering hiring new employees in the near future, with several indicators supporting this view. The Manpower Employment Outlook Survey (MEOS), which identifies the net expected staffing for the next quarter (see definition at the bottom of the page), shows that net expected staffing for Q2 2017 has returned to 6 %, after a record low of 2 % in Q4 2015. The similar annual NAV survey for 2017 also reveals a net share of 14 % of companies expecting to increase their workforce during the coming year, compared to 10 % one year ago. The Norwegian Central Bank Regional Network Survey 1/2017 also reports a more positive employment outlook in line with the Norwegian PMI, with the April survey reporting the highest index for employment since March 2013. All the survey results are however quite moderate, showing that growth in the economy is still running in a low gear. When ranking counties by employment expectations, the NAV survey shows that Oslo has dropped from second place in 2016 to sixth place this year. The expectations are only slightly less positive compared to last year, but other parts of the country are doing much better compared to the 2016 survey. Akershus continues to top the list however, in the same way as in 2016.

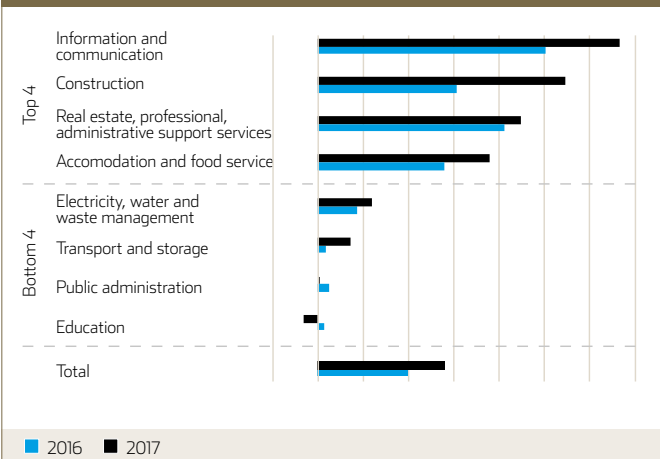
NET EMPLOYMENT OUTLOOK\* - DEVELOPMENT OVER TIME (SEASONALLY ADJ.)



\*Net employment outlook is derived by taking the percentage of employers anticipating an increase in hiring activity and subtracting from this the percentage of employers expecting to see a decrease in employment at their location in the next quarter.

Source: Manpower Employment Outlook Survey (Q2 2017)

NET SHARE OF COMPANIES\*\* EXPECTING INCREASE IN WORKFORCE, NAV\* - SURVEY 2017, BY SECTOR



Source: NAV (Bedriftsundersøkelse 2017)

NET SHARE OF COMPANIES\*\* EXPECTING INCREASE IN WORKFORCE, NAV-SURVEY 2017, BY COUNTY



Source: NAV (Bedriftsundersøkelse 2017)

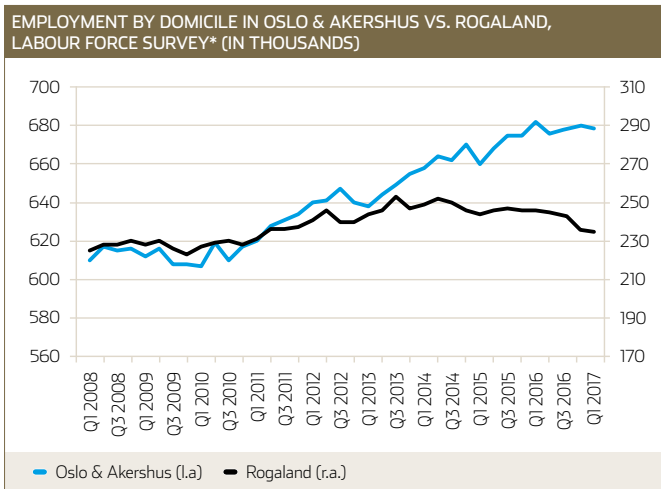
■ 2016 ■ 2017

\*\*Percentage of employers anticipating an increase in hiring activity and subtracting from this the percentage of employers expecting to see a decrease in employment in the next 12 months.

**Demand for office space in Greater Oslo and Stavanger**

With moderate employment growth in sight, we have a foundation for an increased demand for office space over the next year. Looking at the different sectors, 'Information and Technology' is the strongest growing sector in terms of headcount, closely followed by 'Construction, Real Estate and Professional Administrative Support services'. Construction in particular will not typically generate a high demand for office space. The other effect that may reduce the overall demand for office space is the trend of moving to premises with fewer square metres per head, which may offset the expected employment growth. This is however difficult to estimate with accuracy.

In line with the unemployment and employment figures, the demand for office space in the Stavanger region has been weak. However, a recent survey by SR-Bank and the MEOS survey show signs of improvement and optimism in the Oil & Gas heavy Southwest region (including Stavanger). However, employment figures are still exhibiting a negative trend in the quarterly LFS survey, and we believe it will be some time before this optimism turns into an actual increase in employment. That being said, the number of unemployed persons in Stavanger is decreasing and hopefully employment will accelerate throughout the year.



**GASOLIN PORTFOLIO**

Malling & Co Corporate Real Estate is handling the sale of 60 petrol stations in Norway.





**UNIVERSITETSGATA 7-9 / INNER CITY**

Malling & Co Næringsmegling has been commissioned by Entra to lease around 18 500 m<sup>2</sup> in the new office project.

Illustration: Cubo Arkitekter





## Tenant representation

### Property searches for office space with estate agents

The activity in the market for these searches increased significantly in 2016 compared to previous years, and the total amount of office space searched for in 2016 reached 300 000 m<sup>2</sup> in total. This is the second highest volume since we started recording property searches in 2009. Estimates suggest that searches this year will reach about the same or even higher volumes.

#### More tenants requiring over 5 000 m<sup>2</sup> in the market

In 2016, we registered 108 tenants actively searching for office space through estate agents, comprising a total of just over 300 000 m<sup>2</sup>. This volume is the highest since 2010, and twice the average annual volume from 2012 to 2015. The main driver for the increase in volume is an increase in the number of large tenants looking for new office space. In 2016, public tenants comprised more than half the volume, and were therefore the driver for the high volume. As at 22 May, we have already registered 56 searches, and the volume is expected to be as high as in 2016. Public tenants are still probing the market, but are not present to the same extent as last year. So far in 2017 we have observed several private companies within the tech industry, financial services and consulting probing the market. Such companies often have different requirements compared to the public tenants who dominated the market last year.

#### Large tenants are probing the market two years before lease expiry

On average, tenants requiring premises larger than 5 000 m<sup>2</sup> probe the market two years prior to the expiration of their current lease contract. This may be the reason why some developers are experiencing that speculative construction is favourable. These stats should prove interesting for property owners setting notice periods for extensions on lease contracts – a period which is usually one year before expiry. Depending on the size of the property, this may reduce the property owner's ability to start the letting process early and reduce the vacancy period between tenants. Worth mentioning is the obvious fact that the size of a search and the time of the preferred moving date are correlated. On average, more than one in three tenants (requiring over 1 000 m<sup>2</sup>) use an estate agent to find potential new office space, and approximately half of all tenants end up with a renewal of their current lease.

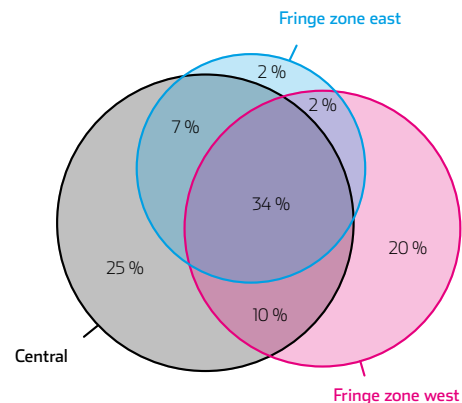
#### City centre remains in strong demand

Despite a limited conclusion basis with data for 2017 until mid-May, we continue to observe the long-term trend of the city centre being attractive to most tenants. Western areas like Skøyen and Lysaker also seem to be attractive, despite somewhat high vacancy in the west. That being said, demand further west remains limited. Demand within the eastern fringe areas is significantly lower than that observed last year, but this may change throughout the year as we gain additional data. In 2016, demand in the eastern fringe was at all time high since 2010.

#### About the analysis and database

Tenant representation agents map tenants' location and facilities requirements, and manage the actual search for new commercial space. This applies to office space, combined premises, and retail and warehousing/logistics premises. Larger tenants are more likely to use tenant representation agents, but many small and medium-sized enterprises also obtain assistance during their relocation processes. We register and systematise all property searches covering the Greater Oslo area. This makes it possible to analyse one of the main sources of demand in the market. Our figures show that rental searches account for between 15 % and 50 % of the total annual volume (measured in square metres) of signed office lease agreements. Our analysis of market searches goes back to 2009 and includes almost 1 000 searches to date, two thirds of which are pure office market searches. This enables us to study the demand side trends in detail and to help our clients to offer and invest in the right project for the end user

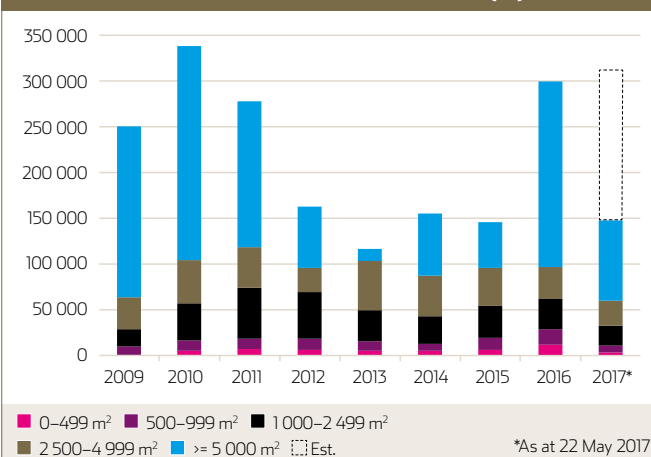
OFFICE SEARCHES GREATER OSLO 2016–2017\*



\*As at 22 May 2017

Source: Malling & Co

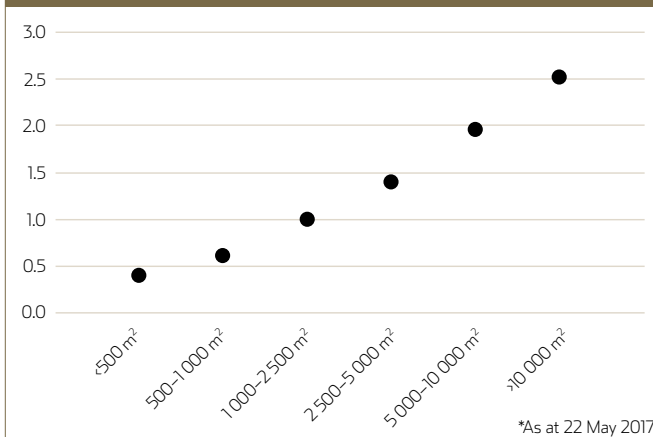
OFFICE MARKET SEARCH DATA GREATER OSLO 2009–2017\* (M<sup>2</sup>)



\*As at 22 May 2017

Source: Malling & Co

AVERAGE TIME IN YEARS BETWEEN PUBLICATION OF MARKET SEARCH AND DESIRED LEASE STARTUP DIVIDED INTO SIZE SEGMENTS (2009 – 2017\*)



\*As at 22 May 2017

Source: Malling & Co

## Construction activity in Greater Oslo

### Increasing construction activity

The 2016 annual volume of 88 000 m<sup>2</sup> of completed office space was well below the historic annual average of just under 150 000 m<sup>2</sup> (2007-2017), and at 94 000 m<sup>2</sup> the same applies to the volume for 2017. Our figures regarding net changes in the total office stock imply that the net supply of office space will be slightly negative in 2017, depending on timing definitions. This is due to low newbuilding activity and high conversion to other uses, mainly residential. All time low interest rates and a lack of supply in the residential market have created a massive demand for new plots and old stock suitable for residential purposes among developers over the past few years, stimulating the scrapping and conversion rates.

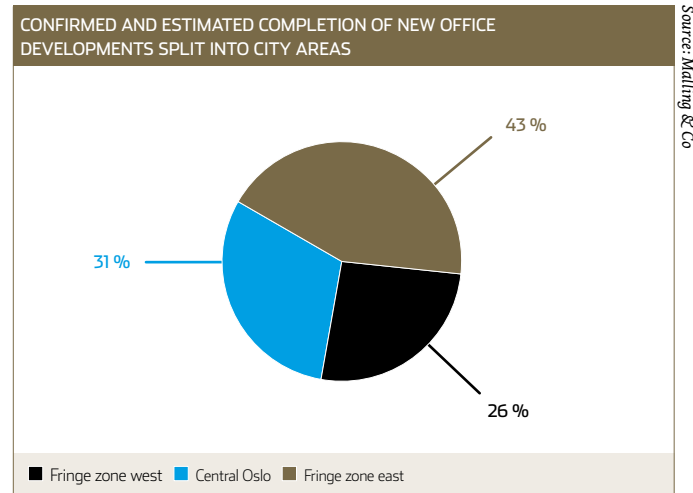
The most important reason for the low level of construction activity has been a lack of the large anchor tenants needed to initiate newbuilds. Since early 2016, we have registered an increasing number of large tenants looking for new premises due to the expiry of their contracts in the next couple of years. With an increased number of anchor tenants in the market, it is more likely that more newbuilds will be initiated.

Almost without exception, the projects currently in pipeline are all within our defined office clusters in Greater Oslo, and mainly in Central Oslo and the eastern fringe zone, where vacancy has recently been low. Vacancy has been high in the western fringe zone of Greater Oslo over the past few years, mostly due to workforce reductions in the Oil & Gas sector. This has made it more difficult to find anchor tenants to initiate new projects, which has consequently put several projects on hold. Another important factor for the low construction activity in the Skøyen - Lysaker - Fornebu axis in the western fringe is the projected and ever-delayed Fornebu metro, which has delayed projects around the planned metro line. Discussions regarding the new metro line have been lengthy, and the new realistic timeline for its opening has been postponed to 2025.

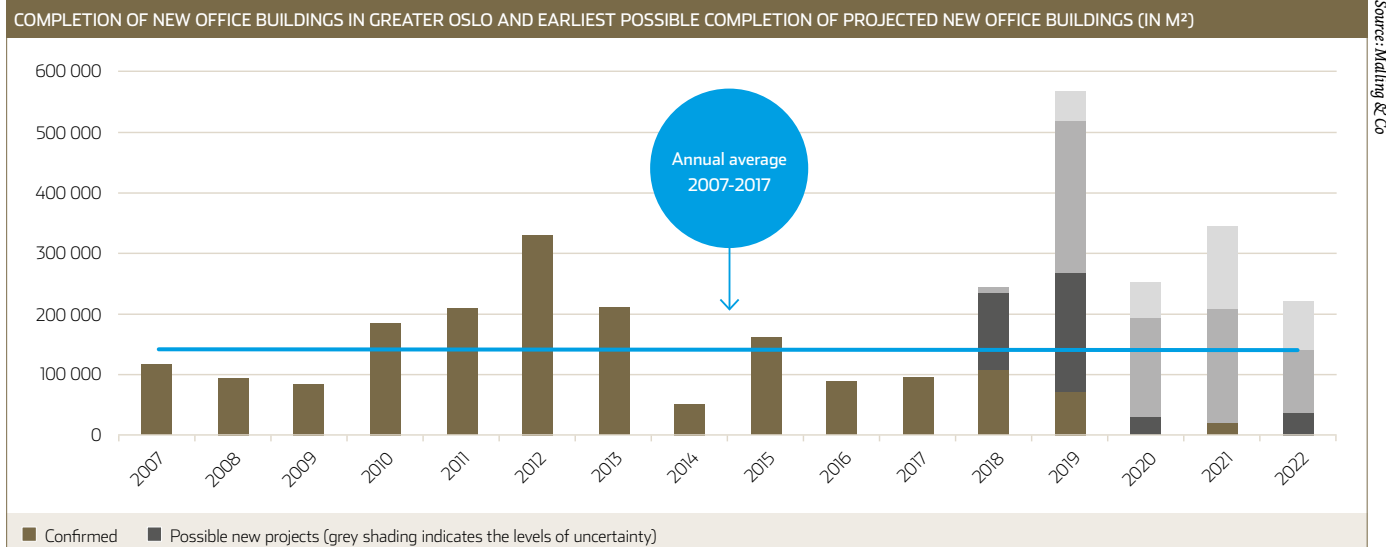
The pipeline of projects being built on speculation in recent years has typically consisted of smaller projects, with lower and more manageable vacancy risk compared to larger developments. However, we have observed that a few developers have become more speculative over the past year, initiating the construction of several office projects without anchor tenants in place. Vitaminveien 4 in Nydalen, Schweigaards gate 33 in the inner city /

Bjørnvika, and Freserveien 1, just outside the inner city, are all examples of large office projects in pipeline that have been initiated on speculation. In the competition for large tenants, some developers have seen an opportunity to get a step ahead of others in terms of timing, and to offer tenants contracts with less reservations. On average, 35 % of the total office volume under construction is vacant.

The chart below shows historical and confirmed new office projects (brown bars), as well as possible new projects, where the grey shading indicates the uncertainty. The uncertainty is divided into three levels (from dark to light); moderate if the project is awaiting tenants to sign a contract, medium if zoning has been initiated, and high if the project is in the early stages. With a 'normal' construction period of 18-24 months, there is still a chance that the actual construction volume in 2018 will increase above the current pipeline.

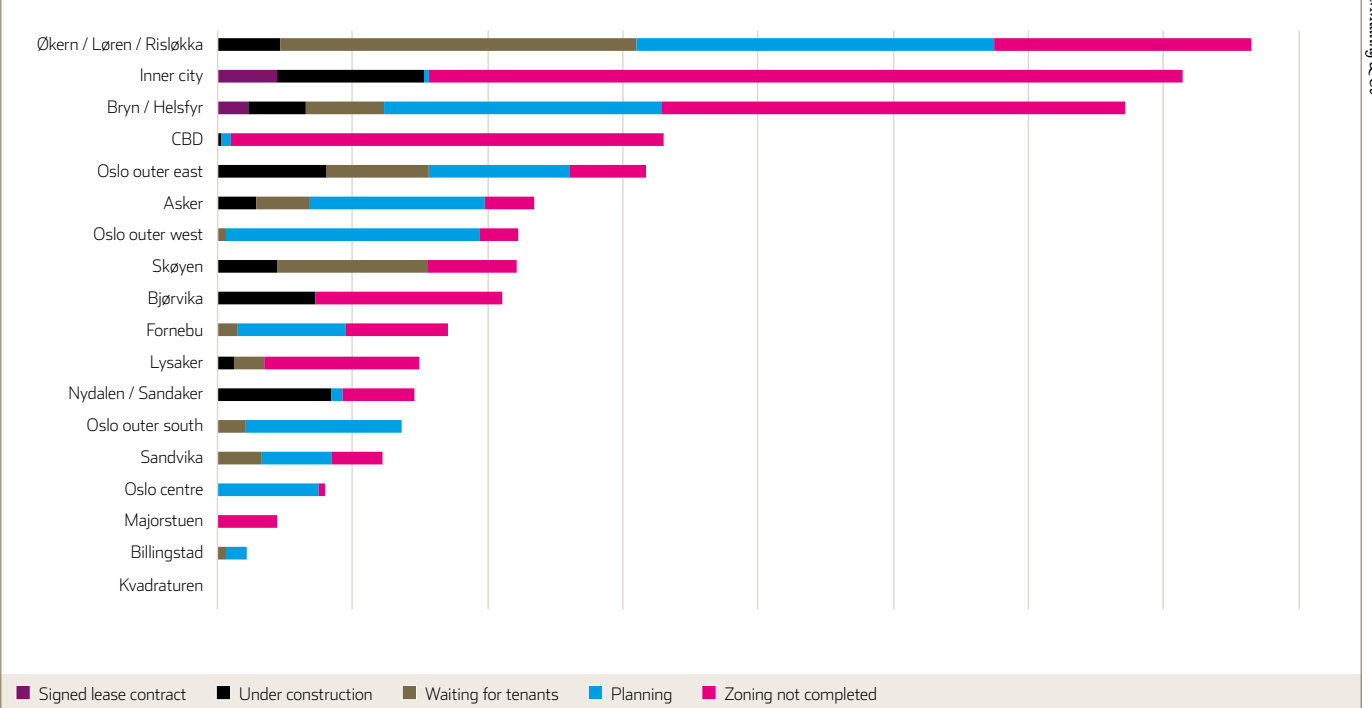


Source: Malling & Co

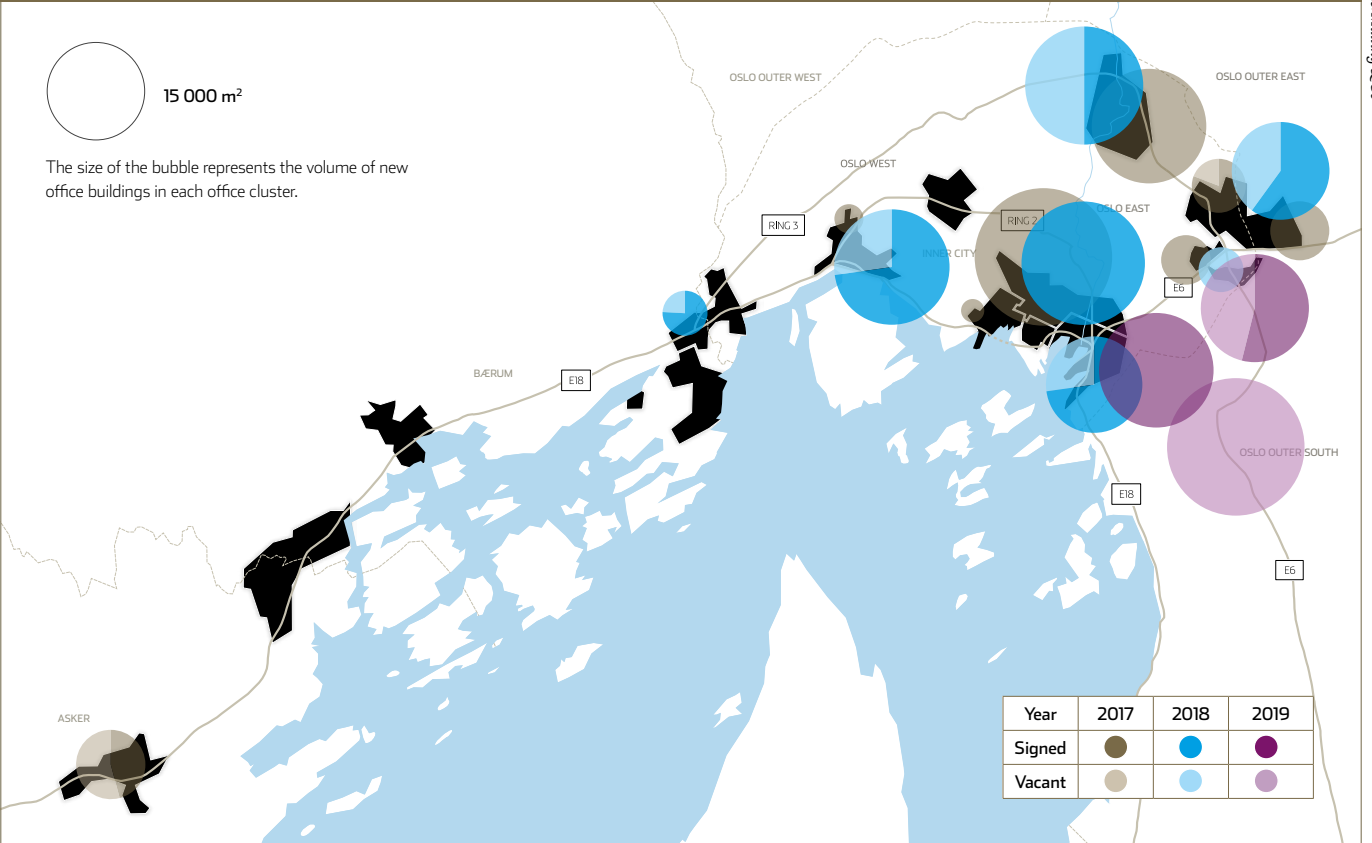


Source: Malling & Co

NEW OFFICE CONSTRUCTION VOLUME AND PROJECT STATUS IN DIFFERENT CLUSTERS (M<sup>2</sup>)



COMPLETION OF NEW OFFICE BUILDINGS THAT WILL BE FINALIZED 2017-2019









**FYRSTIKKALLÉEN 1 / HELSFYR**

Malling & Co Næringsmegling has been commissioned to lease around 38 400 m<sup>2</sup> of office space in the new, centrally-located development project at Helsefyf.

Illustration: 3D Estate





**HELSEFYR PULS / HELSEFYR**

Malling & Co Project Finance has facilitated a project at Helsefyr consisting of a plot and an existing office building. Omsorgsbygg Oslo KF will lease most of the new office building comprising 9 500 m<sup>2</sup> from late 2018. There is further development potential in the existing office building.

Illustration: A-lab Arkitekter



## Supply in the rental market

Increased supply due to several new office projects in the eastern fringe and increased vacancy in the western fringe

The aggregated supply (see definition) in Greater Oslo has increased by more than two percentage points since the end of 2016, partly due to several new office projects entering the market. The proportion of offered newbuilds relative to existing stock has not been higher since our database was founded in January 2011. Vacancy, however, remains relatively low.

In May, the total supply of office space in Greater Oslo comprised almost 1.3 million m<sup>2</sup>, an increase of 21 % on May 2016. The average amount of office space offered per advertisement is almost 1 700 m<sup>2</sup>, an increase of 17 % on last year. The main reason for this increase is the high number of new projects that have recently entered the market. As at May 2017, the number of ads offering over 5 000 m<sup>2</sup> is 46, while 20 of the offered premises are larger than 10 000 m<sup>2</sup>.

In our defined office clusters in Greater Oslo, 39 % of all advertised premises larger than 2 000 m<sup>2</sup> are currently vacant or will become vacant by the end of 2017, and 9 % will become vacant during 2018. 52 % of the premises will not become available before 2019 or later.

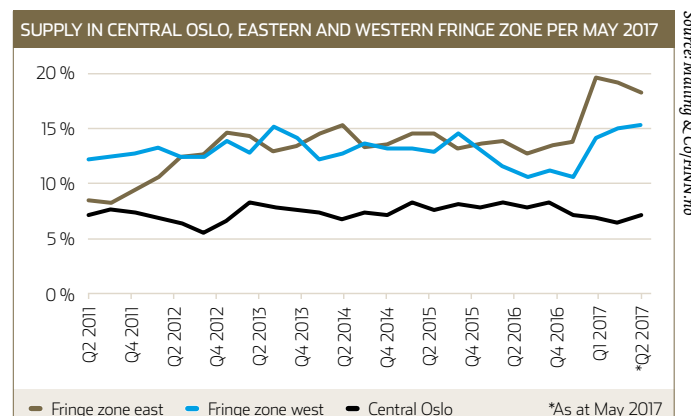
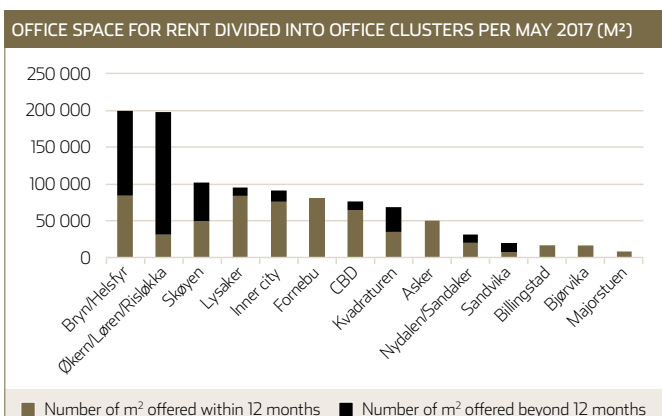
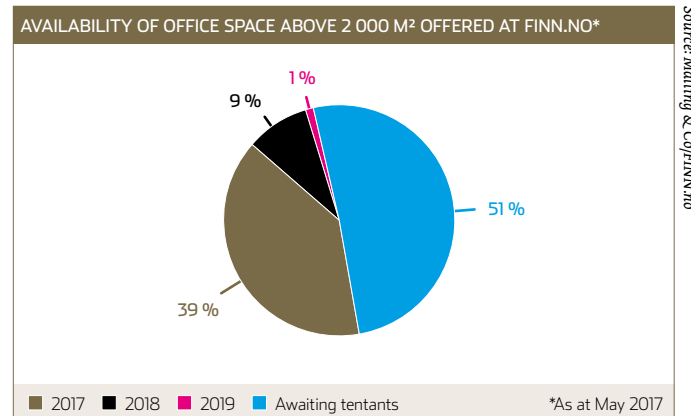
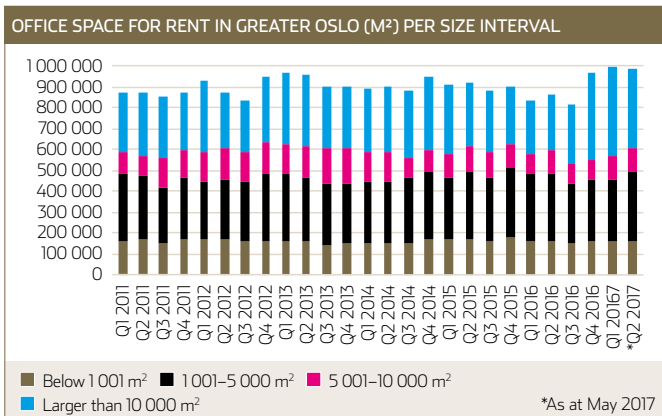
The total supply of office space within our defined office clusters in Greater Oslo was more than 1 000 000 m<sup>2</sup> as at May 2017 – an increase of 27 % on May 2016. Within a 12-month perspective, the vacant office space was 600 000 m<sup>2</sup>, an increase of 12 % on May 2016, mainly in the western fringe. The aggregated supply has also increased, since planned newbuilds

offered in the market have increased by 58 % in the past year. As at May 2017, the aggregated supply rate for office clusters in Greater Oslo is 13.0 %, and the vacancy rate is 7.6 %.

As at mid-May 2017, offered sub-letting constituted 11 % of the total vacancy within the office clusters in Greater Oslo. This is the same as in October 2016, and we do not expect this figure to increase further. Almost 90 % of available sub-letting is in the western fringe. Sub-letting space that has been on the market for a while becomes more ‘unlettable’ the shorter the underlying lease is. We also see some tenants ending up in break-clause negotiations with landlords, who in most cases can offer a superior product compared to a sub-letting contract.

### How we measure supply

When analysing the supply side of the rental market we wish to describe what is available for prospective tenants, not only vacant space. We therefore split the total amount of offered office space into two categories: supply and vacancy. Supply includes all projects and vacancies regardless of delivery date, while vacancy comprises only existing or new projects available for delivery within 12 months of the date of measurement. In more detail, we define supply as all office space that is available in the market, including existing buildings and new constructions. Projects offered in specific processes to tenants looking for space, but which are not available on the online marketplace FINN.no, are not included in the figures. These projects usually end up on FINN.no in the end, however, which means that the potential supply is even higher than that reported in these figures, but vacancy is a more exact measure. Including a measure of available new office projects explains possible discrepancies in a simple supply/demand relation when looking only at rents and vacancy.

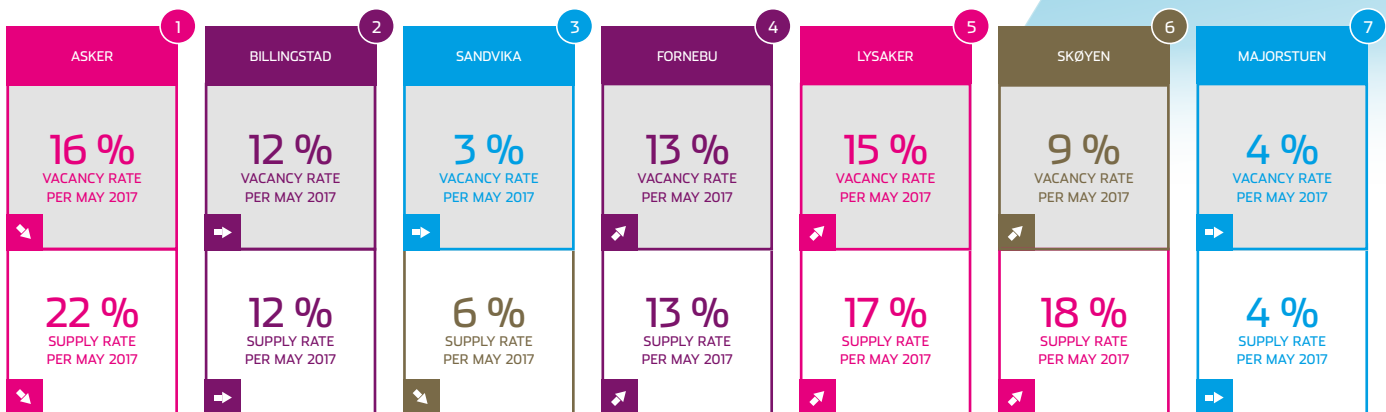
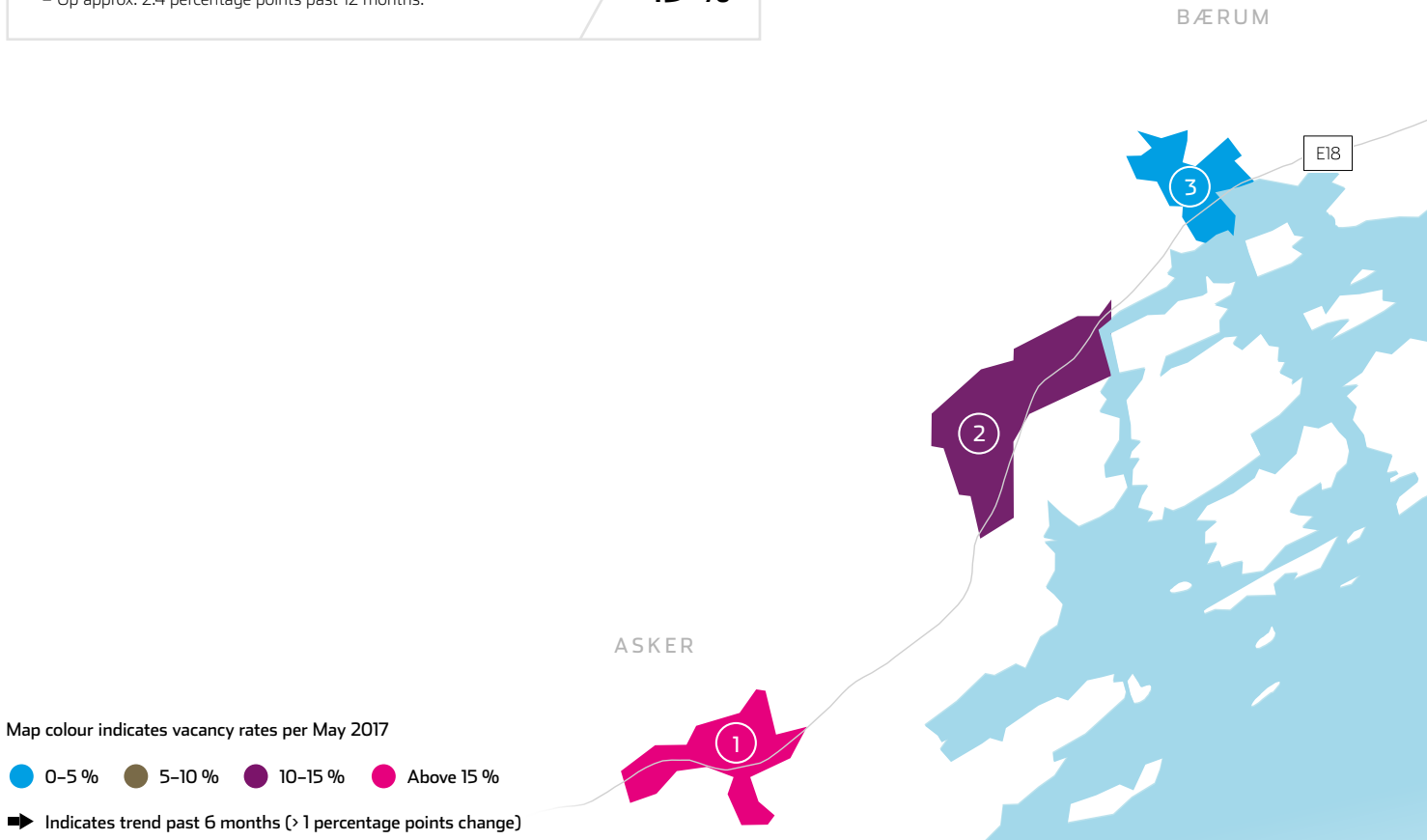
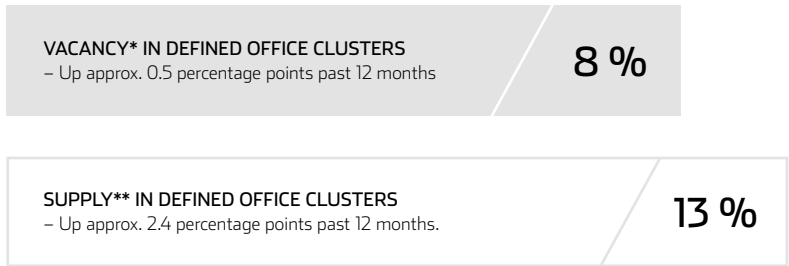


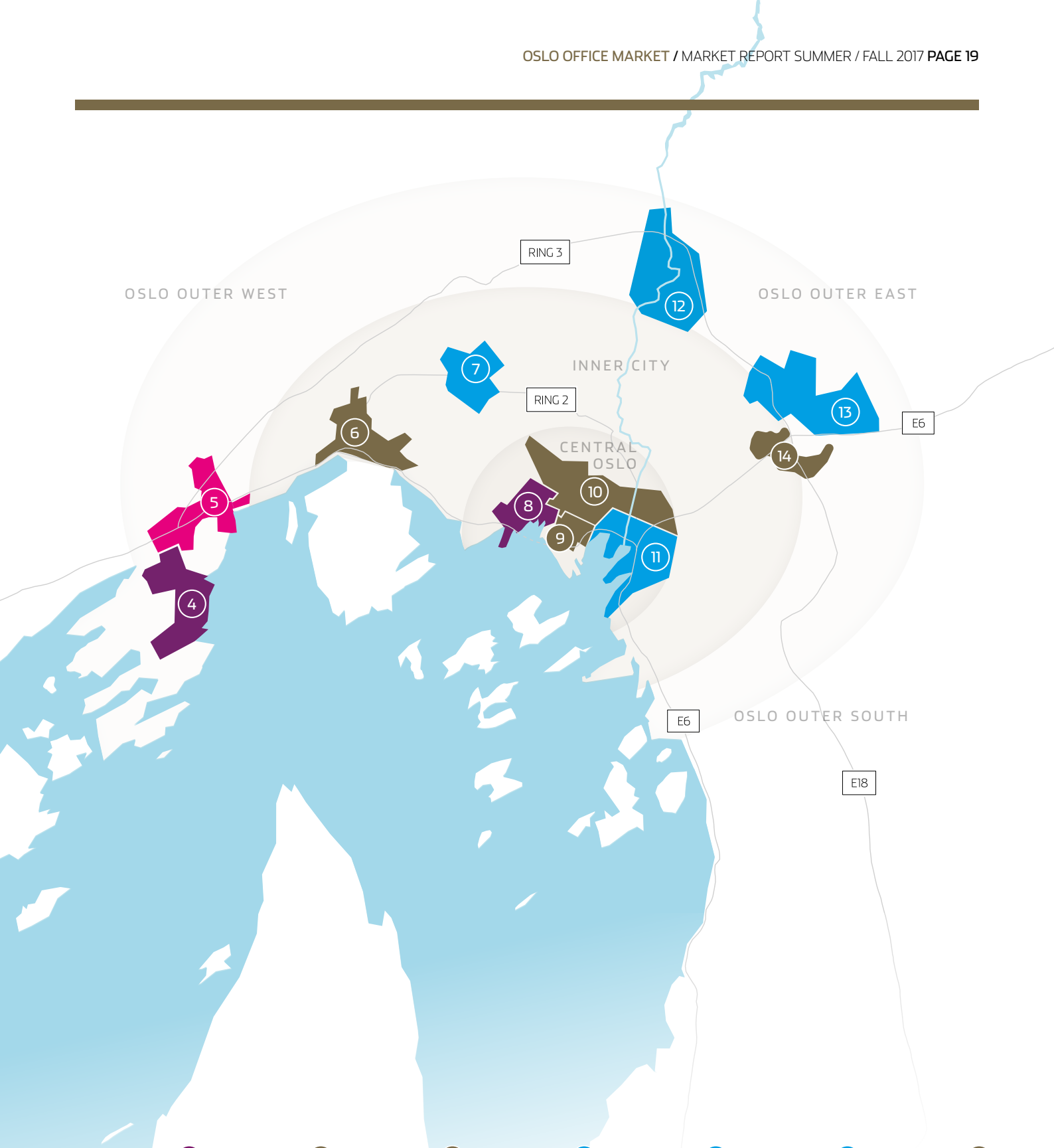


## Vacancy\* and supply\*\*

\* Advertised office space within 12 months at FINN.no of the total office stock in Greater Oslo.

\*\* Advertised office space at FINN.no of the total office stock in Greater Oslo. This includes potential advertised new projects.





Region	Vacancy Rate (Per May 2017)	Supply Rate (Per May 2017)
8 CBD	10 %	11 %
9 KVADRATUREN	6 %	11 %
10 INNER CITY	5 %	6 %
11 BJØRVIKA	4 %	4 %
12 NYDALEN / SANDAKER	4 %	5 %
13 ØKERN / LØREN / RISLØKKA	3 %	21 %
14 BRYN / HELSFYR	10 %	23 %

## Further development of the rental market

### Increasing rents in central locations

#### Economic growth is finally picking up speed

Leading indicators show increased optimism, and strong first quarter GDP growth supports expectations of stronger economic growth ahead.

#### Moderate employment growth

Despite weaker net immigration to greater Oslo, the region is continuing to grow. With an economic upswing ahead, employment may increase with a lag due to available capacity within the current workforce. However, we are already seeing increasing figures for vacant positions and a more positive employment outlook among businesses.

#### Rents are increasing

After peaking in 2014, average rents for signed lease agreements have moved sideways or slightly down over the past two years. At the end of 2016, we observed office rental growth in central Oslo.

#### Vacancy is slightly up

Compared with the figures we reported one year ago, vacancy in the office

clusters is up by around 0.5 percentage points to 7.6 %. However, this is accompanied by higher demand due to contracts expiring, and reduced vacancy in the city centre. Low office construction over the next two years is expected to keep vacancy low for a while. There is a risk of higher vacancy further down the road, and this will depend on how many new projects will be able to attract tenants large enough to initiate construction.

#### Limited new construction and high conversion rates

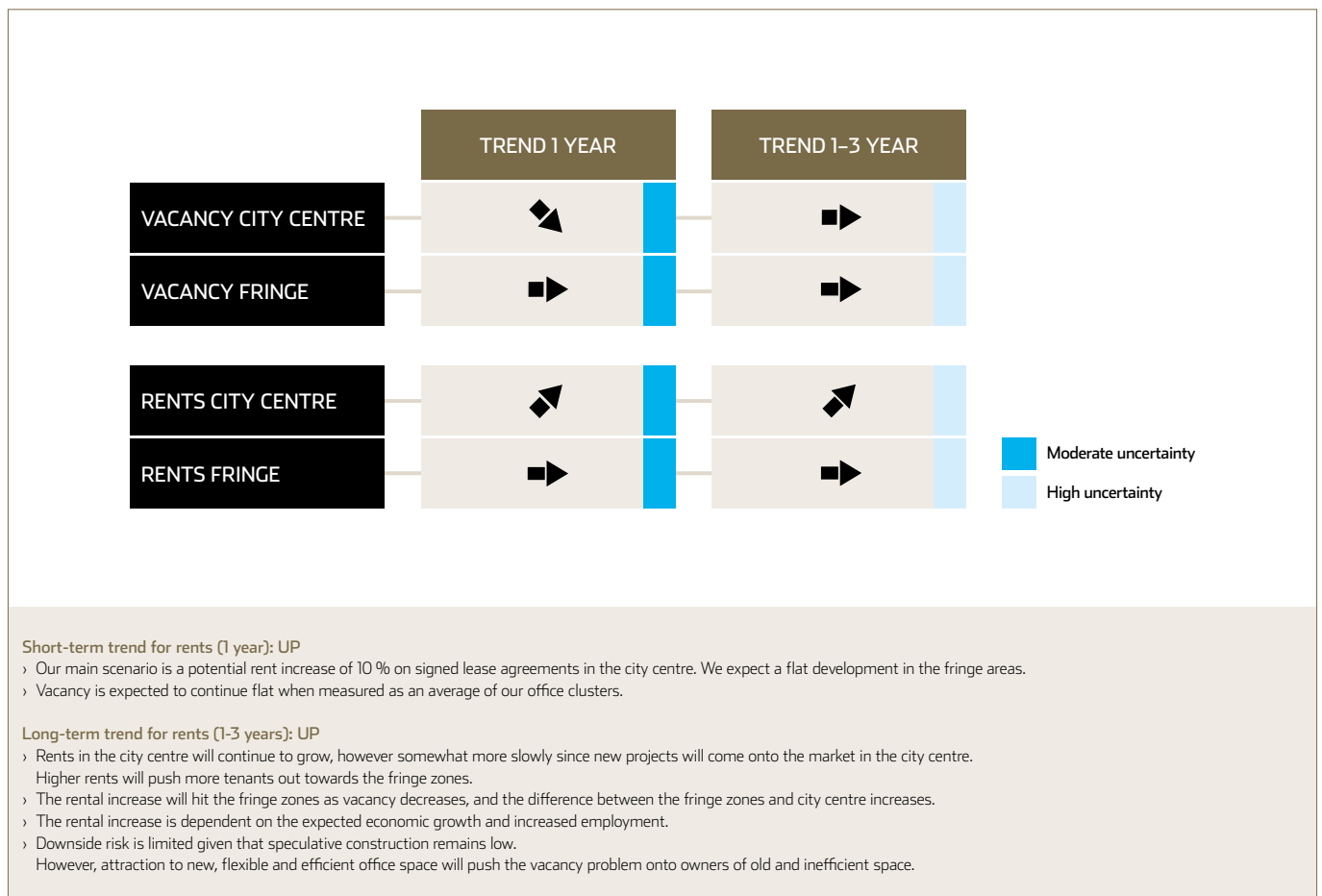
Construction is expected to be below the historical average over the next two years, and the number of conversions, demolitions and refurbishments makes the net effect around zero.

#### Risk of less stimulation from the residential sector

Over the past two years, competition between residential and commercial utilisation has motivated the increased conversion of development properties to residential properties due to the sharp increase in housing prices. Increased office rents and a cooldown in the residential market may level out these differences.

#### City centre proves its attractiveness

Despite the public sector's attraction to the east fringe areas due to pricing, the city centre remains in high demand for general tenants.







**JACBOS PÅ HOLTET**  
Malling & Co Corporate Real Estate  
handled the sale of the retail asset,  
comprising 8 700 m<sup>2</sup>.



## The rental market

### Greater Oslo

In the following section, we have summarized the status within our defined office clusters in Greater Oslo. We have provided a table with estimated normal\* and prime\* rent levels as well as supply\*\* and vacancy\*\* for every office cluster. We have also included a short section with the latest news for each cluster. The main source for estimating monthly vacancy and supply is a list from Norway's dominant market place FINN.no, which we have further processed. Utilizing these numbers, we find that a total supply for all our defined office clusters has increased from 10.6 % to 13.0 % over the past 12 months. The vacancy, space available within 12 months, has increased from 7.1 % to 7.6 % in the same period.

#### A SELECTION OF THE LATEST MAJOR LEASE CONTRACTS

Tenant	Moving to address / Office cluster	Moving from address / Office cluster	Space m <sup>2</sup>
Visma	Karenslyst Allé 56 / Skøyen	Renegotiation	~ 18 000
Helsedirektoratet	Vitaminveien 4 / Nydalen	Universitetsgata 2 / Inner city	~ 11 200
Norconsult	Kjørboveien 12 / Sandvika	Renegotiation	~ 11 000
NHST Media Group	Christian Krohgs gate 16 / Central Oslo	Renegotiation	~ 10 000
Bane Nor	Biskop Gunnerus gate 14 A / Inner city	Renegotiation	~ 10 000
Microsoft	«Eufemia» / Bjørvika	Co-location (Lysaker Torg 45 and Torggata 2)	~ 9 600
The Directorate of Norwegian Customs	Strømsveien 96 / Bryn/Helsfyr	Schweigaards gate 15 / Inner city	~ 9 000
IBM	Sundtkvartalet / Central Oslo	Nedre Skøyen vei 26 / Skøyen	~ 7 300
Omsorgsbygg	Grenseveien 80 / Bryn/Helsfyr	Sommerrogata 1 / CBD	~ 6 500
Verisure	Drammensveien 211 / Skøyen	Drammensveien 175 / Skøyen	~ 5 000
Nemko	Philip Pedersens vei 11 / Lysaker	Gaustadalléen 30 / Oslo outer west	~ 4 800
Sophies Minde	Østensjøveien 16 / Bryn/Helsfyr	Trondheimsveien 235 / Oslo outer east	~ 4 400
Vinmonopolet	«Diagonale» / Bjørvika	Akersgata 51 / Inner city	~ 4 000
Stanley Security	Nydalsveien 28 / Nydalen	Urtegata 9 / Central Oslo	~ 3 900
Knowit	Sundtkvartalet / Central Oslo	Co-location	~ 3 900

#### ASKER



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	1 600 – 1 800	1 600 – 1 800
Prime rent (NOK/m <sup>2</sup> )*	2 150	2 100
Supply**	22 %	14 %
Vacancy**	16 %	9 %

**Comment:** A third of the vacancy in Asker is due to sub-letting after FMC decided to consolidate in Kongsberg. Ferd Eiendom's newbuild 'Asker Tek' is due to complete in Q1 2018. Indra Navia has signed a lease for 7 500 m<sup>2</sup>, with several other tenants in process. Development of the Føyka area is scheduled to start from 2019. The development comprises over 100 000 m<sup>2</sup>, and will continue over many years and in several stages. The market in Asker is challenging, with many of the companies within the Oil & Gas sector still within a downsizing period. With an increasing trend of housing conversion at Billingstad, this will be positive for the office rental market in Asker.

#### BILLINGSTAD



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	1 250 – 1 500	1 250 – 1 500
Prime rent (NOK/m <sup>2</sup> )*	1 800	1 700
Supply**	12 %	15 %
Vacancy**	12 %	13 %

**Comment:** Olav Brunborgsvei 4-6 is still accounting for more than half of the office vacancy at Billingstad, and has been vacant for almost three years. Billingstad is losing the competition against Asker and Sandvika, and conversion from office to more big box retail and residential is the main focus for many of the properties.

\*See definition of «normal» rent and prime rent on page 26.

\*\*See definition of supply and vacancy on page 18.

## SANDVIKA



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	1 500 – 1 700	1 600 – 1 800
Prime rent (NOK/m <sup>2</sup> )*	2 150	2 250
Supply**	6 %	13 %
Vacancy**	3 %	3 %

**Comment:** When the new E16 road opens in 2019/2020 and a tunnel has been constructed from Kjørbo to Vøyen, the Hamang area will be able to be opened for urban development. Area zoning for Sandvika East is being processed for the second time this spring. The plan assumes the demolition of old premises and newbuilds in central quarters of old Sandvika – ‘Andenæskvartalet’, ‘Helgerudkvartalet’, ‘Tinghuskvartalet’ and ‘Finstadkvartalet’. The proposed plan opens for a tripling of the current building stock. This amounts to at least 45 000 m<sup>2</sup> of mixed-use development potential for retail, office and services, plus 600 to 800 new apartments. Of the major lease agreements worth mentioning, Norconsult has recently renegotiated their lease of 11 000 m<sup>2</sup> at Kjørbo.

## FORNEBU



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	1 500 – 1 700	1 500 – 1 700
Prime rent (NOK/m <sup>2</sup> )*	2 000	2 000
Supply**	13 %	3 %
Vacancy**	13 %	3 %

**Comment:** Eureka Pumps is sub-letting 2 500 m<sup>2</sup> in Fornebuporten and Aker is sub-letting 6 300 m<sup>2</sup>. Aker is also sub-letting more than 30 000 m<sup>2</sup> in Snarøyveien 36 following their move to Fornebuporten last summer. The owner, Norwegian Property, is considering re-zoning to residential. Telenor Eiendom has made a proposal for urban dilution on their property (Snarøyveien 30), which comprises a total of around 141 acres. Selvaag and the Mohn family just acquired the Kokska plot of 80 acres, which will be developed over the coming years. Most of the development projects at Fornebu are awaiting the Fornebu metro line, and not least improvement within the Oil & Gas market. The new timeline for completion of the Fornebu metro is now 2025.

## LYSAKER



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	1 700 – 1 900	1 700 – 1 900
Prime rent (NOK/m <sup>2</sup> )*	2 300	2 250
Supply**	17 %	16 %
Vacancy**	15 %	14 %

**Comment:** We observe high activity at ‘Lysakerlokket’, where rents are approximately 20 % higher than elsewhere in Lysaker. NCC has leased Philip Pedersens vei 11 to Nemko, with completion due in Q4 2018. Rental prices in Lysaker peaked in 2014, and have been on a downward trend since then, but now seem to have stabilised. Teleplan Eiendom has collaborated with several landowners in the area between Lysaker and Fornebu to strengthen the area, especially by improving the connection between Lysaker and Fornebu. A new metro station just south of the area may facilitate increased utilisation and urban development. Mustad Eiendom is planning a new urban structure at Lysaker, from Lysaker in the south and to Lilleaker in the north.

## SKØYEN



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	2 000 – 2 300	2 000 – 2 300
Prime rent (NOK/m <sup>2</sup> )*	3 000	3 000
Supply**	18 %	12 %
Vacancy**	9 %	7 %

**Comment:** There are several new office projects in Skøyen that may be completed within a couple of years if an anchor tenant signs a lease, i.e. ‘Harbitz Torg’ (30 000 m<sup>2</sup>), ‘Skøyen Atrium’ (23 300 m<sup>2</sup>) and Hoffsvveien 17 (6 000 m<sup>2</sup>). Skøyen is part of a larger area that requires area zoning in accordance with the ‘Oslo by 2030’ municipal plan, and is dependent on the Fornebu metro before further development can take place. The area zoning will open for public inquiry in June 2017. Construction of the Orkla headquarters has started, with estimated completion at the end of 2018. Major tenants in Skøyen, such as Norgesgruppen and Visma, have recently renegotiated their lease contracts.

\*See definition of «normal» rent and prime rent on page 26.

\*\*See definition of supply and vacancy on page 18.



## MAJORSTUEN



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	1 800 – 2 200	1 800 – 2 200
Prime rent (NOK/m <sup>2</sup> )*	2 800	2 800
Supply**	4 %	4 %
Vacancy**	4 %	4 %

**Comment:** Majorstuen is a relatively compact cluster with just a few large tenants, making the liquidity in the letting market limited. However, the development is slowly moving along. Sørkedalsveien 8, 'Rift Colosseum', is finalized and fully leased. Vacancy is remaining low at Majorstuen, well below city average. Developments are in progress for some of the outdated buildings in the area, and will probably be replaced by new modern office buildings.

## CBD



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	2 800 – 3 500	2 800 – 3 200
Prime rent (NOK/m <sup>2</sup> )*	4 800	4 800
Supply**	11 %	10 %
Vacancy**	10 %	9 %

**Comment:** Several office buildings in Vika are currently undergoing extensive rehabilitation and the 'Vika Terrasse' shopping area has reopened with several new shops and dining options. Law firm Steenstrup Stordrange recently moved 200 employees into Cort Adellers gate 33, and Wikborg Rein will move their 200 employees into Dronning Mauds gate 11 in May. Dronning Mauds gate 10 will also undergo a total rehabilitation, and Ruseløkkveien 26 will be demolished and rebuilt with a higher level of utilisation. The average rental prices in the CBD have slowly increased since the beginning of 2015, and will soon be at the same level as that observed in the record years 2013/2014.

## KVADRATUREN



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	2 000 – 2 500	1 800 – 2 300
Prime rent (NOK/m <sup>2</sup> )*	3 200	2 800
Supply**	11 %	9 %
Vacancy**	6 %	9 %

**Comment:** New tram lines through Prinsens gate will be finalised by the end of the year, with wider pavements and more public-friendly areas. This will strengthen Kvadraturen and create better connections to Bjørnlika and the CBD. The high-street shopping area spreads outwards from Karl Johans gate, down towards Kvadraturen. The new owners of Kongens gate 21 will refurbish the 25 000 m<sup>2</sup> property, along with other rehabilitation projects that will be positive for the area. The recent sale of Myntgata 2, which is planned to be used as a new school, combined with three of the six pilot areas for replacing street parking with other activities, will hopefully help to improve the area's attractiveness beyond business hours.

## INNER CITY



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	2 300 – 2 700	2 100 – 2 600
Prime rent (NOK/m <sup>2</sup> )*	3 500	3 500
Supply**	6 %	7 %
Vacancy**	5 %	6 %

**Comment:** Office rents in the inner city have been steadily increasing since they bottomed out in 2009, except for a small dip around the turn of the year 2015/2016. The demand for office space in the city centre remains steady and high, with seven out of ten tenants seeking office space mentioning the area as relevant. However, the lack of affordable projects with plenty of space in the city centre has pushed large public tenants searching for new offices in new or refurbished developments to the eastern fringe of Oslo. Bane Nor Eiendom has decided to initiate construction of their office development in Schweigaards gate 33 on speculation, with expected completion in Q3/Q4 2018.

\*See definition of «normal» rent and prime rent on page 26.

\*\*See definition of supply and vacancy on page 18.

## BJØRVIKA



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	2 700 – 3 000	2 700 – 3 000
Prime rent (NOK/m <sup>2</sup> )*	3 500	3 500
Supply**	4 %	9 %
Vacancy**	4 %	2 %

**Comment:** Bjørvika has attracted several large tenants over the past six months, resulting in a total amount of leased space almost as high as for the rest of the inner city. Microsoft is consolidating in the new 'Eufemia' office development, moving from offices in Lysaker and the inner city to Eufemia in 2019. The Vinmonopolet HQ will move to Diagonale. In addition, two smaller buildings that have been erected on speculation (Dronning Eufemias gate 6B and Dronning Eufemias gate 42) have now almost been filled with tenants. Braathen Eiendom is focusing on offering increased flexibility by launching the Flyt office concept – a new concept where tenants can use facilities across all their multi-user buildings.

## NYDALEN / SANDAKER



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	1 500 – 1 700	1 500 – 1 700
Prime rent (NOK/m <sup>2</sup> )*	2 300	2 300
Supply**	5 %	5 %
Vacancy**	4 %	5 %

**Comment:** Several new lease agreements have been signed over the past months. 'Spikerverket' is now completely filled with tenants like Elkjøp's HQ and Oslo Kemnerkontor. The two office buildings, comprising 20 000 m<sup>2</sup>, will be completed in Q4 2017. Skanska started the construction of 22 000 m<sup>2</sup> of new office space in Vitaminveien 4 on speculation. Norwegian Directorate of Health will occupy half the building when it completes in Q3 2018. Rents in Nydalen have increased during the past two years, presumably due to the high quality and attractiveness of the offering. Realkapital Corporate Finance and H.I.G. Capital recently acquired Vitaminveien 1, and plan to refurbish the office building and lease approximately 4 500 m<sup>2</sup>.

## ØKERN / LØREN / RISLØKKA



	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	1 000 – 1 500	1 000 – 1 500
Prime rent (NOK/m <sup>2</sup> )*	2 200	2 200
Supply**	21 %	21 %
Vacancy**	3 %	6 %

**Comment:** We have observed low activity in the office market in this area in recent months, but many projects are currently in pipeline. Nevertheless, rents have increased, which may be due to low vacancy in the area. The Økern area is the largest development area in Greater Oslo, with development potential comprising around 40 % of the current office stock. Skanska has recently acquired Lørenveien 65 from Stor-Oslo Eiendom, with plans to erect an office building of 19 000 m<sup>2</sup>. Steen & Strøm Norge will start the construction of two new office buildings, a shopping centre and a cinema later this year – a project comprising 91 000 m<sup>2</sup>.

## BRYN / HELSFYR



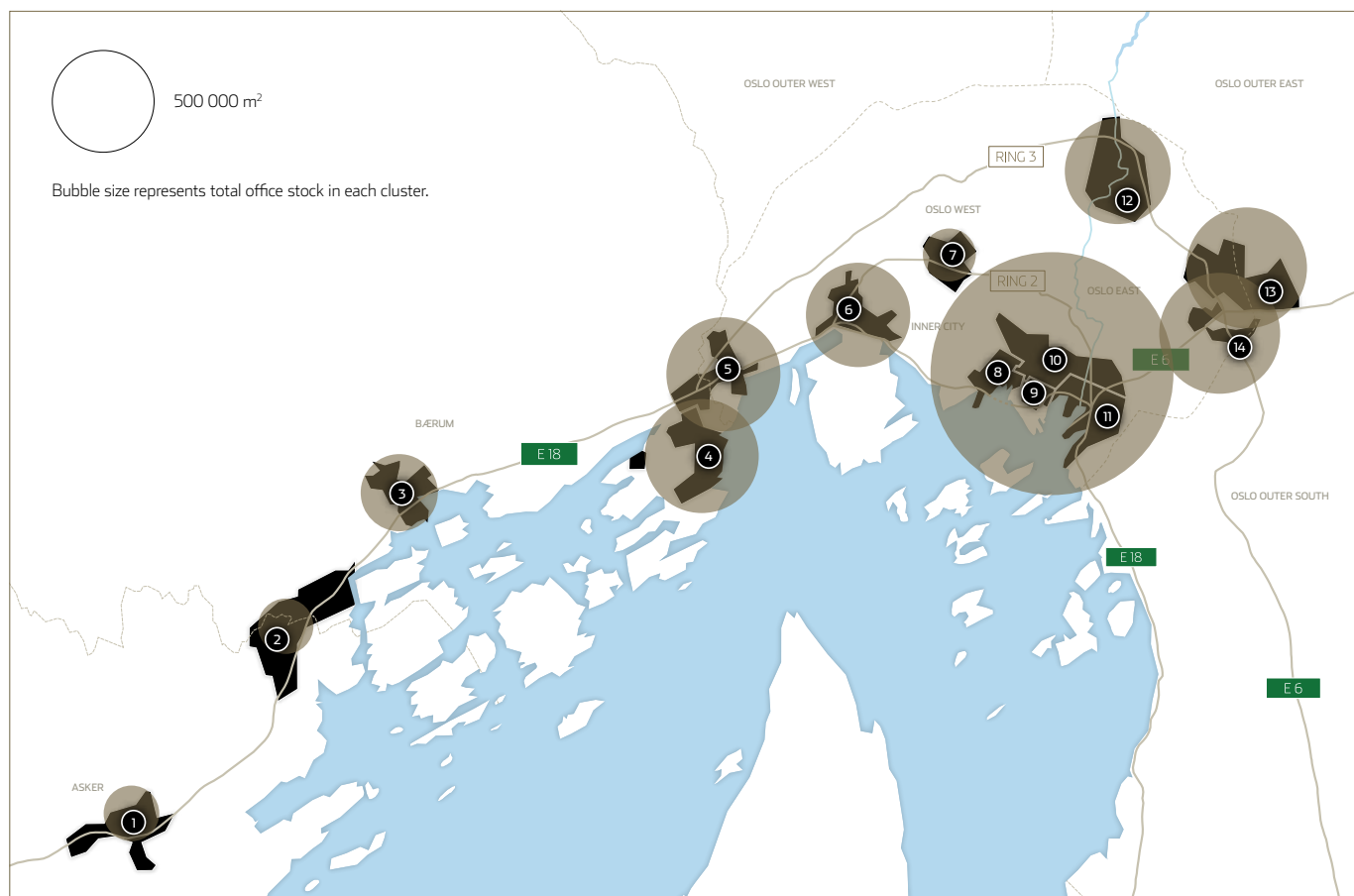
	Per May 2017	Per May 2016
Normal rent (NOK/m <sup>2</sup> )*	1 500 – 1 700	1 550 – 1 750
Prime rent (NOK/m <sup>2</sup> )*	2 200	2 200
Supply**	23 %	13 %
Vacancy**	10 %	9 %

**Comment:** Several new office buildings are in pipeline, including 'Valle' (60 000 m<sup>2</sup>) and Fyrstikkalléen 1 (36 000 m<sup>2</sup>). 'Valle Wood' is the first construction phase of NCC's 'Valle' project, and is being built on speculation. Together with the new football stadium, the project will help to revitalise Helsfyr. The Sophies Minde foundation recently signed a lease contract for 4 000 m<sup>2</sup> in Østensjøveien 16, initiating the construction of Ferd's project. Oslo municipality is signalling a strategy for higher residential utilisation of properties close to Bryn station, guiding and motivating property developers to convert unbuilt plots and outdated office and warehousing space into residential premises.

\*See definition of «normal» rent and prime rent on page 26.

\*\*See definition of supply and vacancy on page 18.

OFFICE RENTS: MALLING & CO ESTATE AGENT CONSENSUS (NOK/M <sup>2</sup> /YEAR)						
#	OFFICE CLUSTER	«NORMAL» RENT*		PRIME RENT**	TREND	△ PRIME RENT PAST 12 MONTHS
1	Asker	1 600	- 1 800	2 150	↘	2 %
2	Billingstad	1 250	- 1 500	1 800	↘	0 %
3	Sandvika	1 500	- 1 700	2 150	↘	-4 %
4	Førnebu	1 500	- 1 700	2 000	↘	0 %
5	Lysaker	1 700	- 1 900	2 300	→	2 %
6	Skøyen	2 000	- 2 300	3 000	→	0 %
7	Majorstuen	1 800	- 2 200	2 800	→	0 %
8	CBD	2 800	- 3 500	4 800	↗	0 %
9	Kvadraturen	2 000	- 2 500	3 200	↗	14 %
10	Inner city	2 300	- 2 700	3 500	↗	0 %
11	Bjørsvika	2 700	- 3 000	3 500	↗	0 %
12	Nydalen / Sandaker	1 500	- 1 700	2 300	→	0 %
13	Økern / Løren / Risløkka	1 000	- 1 500	2 200	→	0 %
14	Bryn / Helsefyr	1 500	- 1 700	2 200	→	0 %



\* Normal rents reflect the interval where most contracts are signed in the specified market area.  
 \*\*Prime rents is the consistently achievable headline rental figure that relates to a new, well located, high specification unit of a standard size commensurate demand within the predefined market area. The prime rent reflects the tone of the market at the top end, even if no new leases have been signed within the reporting period. One-off deals that do not represent the market are discarded.



**DRAMMEN PORTFOLIO**

Malling & Co Corporate Real Estate is handling the sale of two retail and logistics buildings in Drammen; Ingeniør Rybergs gate 44 and Knud Schartums gate 7.



# STAVANGER

## Dawning optimism, but high office vacancy

Not much has changed in Stavanger over the past six months. The Oil & Gas sector in the city is still struggling, but optimism now seems to be dawning. Consolidation and downsizing among tenants has decreased and new opportunities have emerged. Residential prices are rising slightly, which tends to provide a good indicator of how the public views the future situation. Unemployment in the Stavanger region, as registered by NAV, remains high, but has decreased slightly over the last few months, particularly within the building and construction sector. The extremely high vacancy levels in Forus and Hinna continue, and rents have remained largely unchanged. Stavanger city centre seems to be a popular choice for tenants, and the most stable area in the region.

### Office letting market

Compared with figures from our last report, vacancy in Stavanger is up around one percentage point since our last measurement in October. Hinna still has the highest vacancy in terms of per cent, with around 23 % of properties vacant (approx. 28 000 m<sup>2</sup>). The Forus cluster still hovers above other areas in vacant volume, with around 125 000 m<sup>2</sup> vacant. Vacancy is expected to increase further as several companies are currently in the process of downsizing. The largest tenant at Forus, Statoil, will vacate approx. 66 000 m<sup>2</sup> in 2018, indicating increased vacancy in Forus over the next few years. Rents are even more difficult to report with accuracy in a downward market, since most of the activity takes the form of short-term contracts.

Vacancy in the city centre is significantly lower than in Forus and Hinna, and especially low for the best locations around Vågen.

Contracts for under NOK 1 000 per m<sup>2</sup>/year are still being signed in Forus. We continue to observe creativity in terms of discounts being offered through rent-free periods, step-up rents and included fit-outs, etc.

The lower vacancy in Stavanger city centre has resulted in a more stable market, despite the downturn within the Oil & Gas sector, and top rents are estimated to be around NOK 2 500 per m<sup>2</sup>/year.

There is still high vacancy in Forus, and short lease contracts (typically two years) may be signed at low levels in order to cover running costs. Longer lease agreements are more expensive, indicating that landlords expect the office rental market to improve within the next few years.

### Some new lease contracts

- Sola municipality is moving to Kanalsletta 3 in Forus
- Faeroe Petroleum is moving from 'Romsøgården' to Norwegian Property's 'Svanketorget'
- Newsec Basale Stavanger is moving into Oslo Areal's 'Kanalpiren' at Hinna Park
- Law firm Elden are opening an office in Stavanger in Øgreid's 'Romsøgården'

### Development

Due to the high vacancy, there are few updates on development projects since our winter report. Most activity regarding new projects is now focused in the city centre, as the market here is more balanced between supply and demand. The supply of high-quality space in Stavanger city centre (CBD) has been limited for many decades, but is now on the agendas of both developers and city planners.

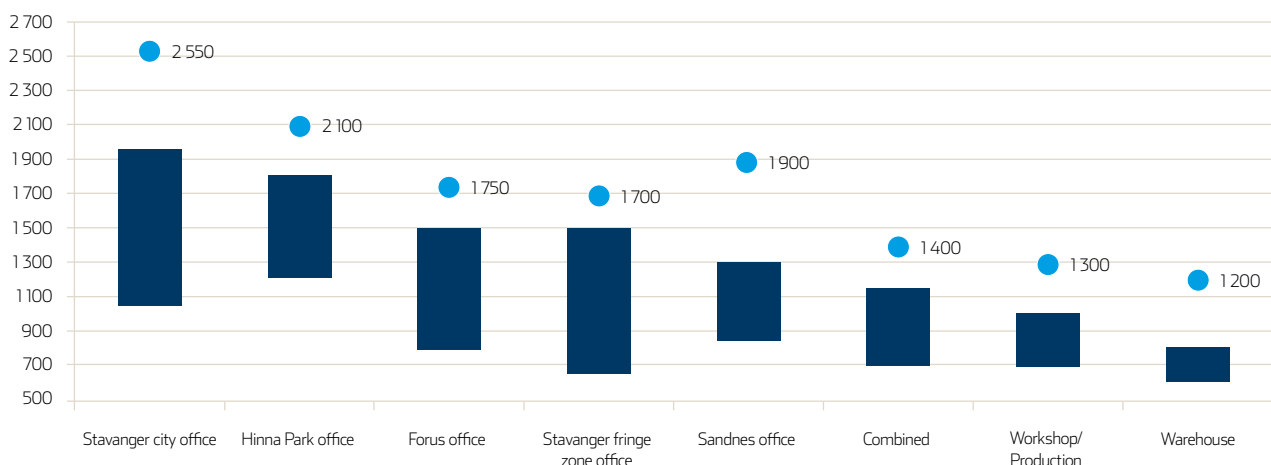
Øgreid Eiendom has started construction of Straensenteret (now called Harbarium), which will be completed in 2018 and comprise 8 000 m<sup>2</sup> of new office space and a shopping centre.

SR-Bank has just started ground works on their new HQ, 'Finansparken', comprising 23 000 m<sup>2</sup> in the city centre. The project is one of the largest office buildings constructed from wood in Europe. The tenant will move in April 2019.

Smedvig will complete Arkivenes Hus at the Ipark in summer 2017.

Some new projects are still being offered in the market despite the high vacancy, but since speculative construction is now a thing of the past in the region, new projects are expected to stay on developer's desks until tenants

INDICATIVE RENTS IN THE STAVANGER REGION DIVIDED INTO AREAS AND SECTORS (NOK/M<sup>2</sup>/YEAR)



■ "Normal" rent ● Prime rent

\*See definition of prime and «normal» rent at page 26.



are willing to sign lease agreements at rent levels above break even for new constructions.

**Transaction market**

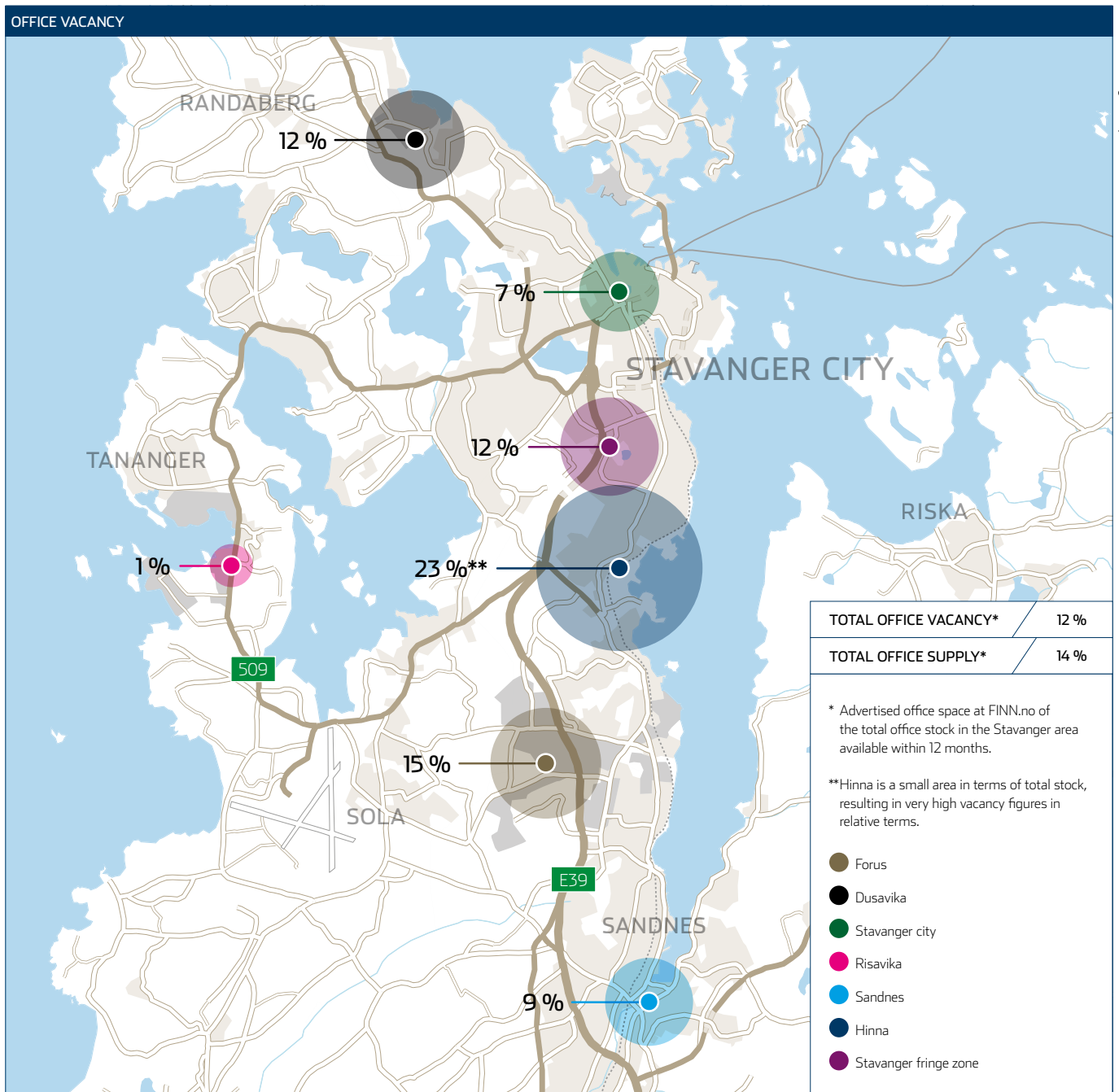
› For the year to date we have registered just over NOK 1.4 billion in transaction volume, divided over five transactions (above NOK 50 million). This is lower than the same period for the past three years.

› We estimate the current prime yield level in Stavanger to be around 5.50 %, and normal yield to be around 7.50 %. The best properties in central Stavanger with solid tenants and long-term contracts remain attractive, especially compared to the yield levels in other large Norwegian cities. The

problems stemming from the downturn in the Oil & Gas industry continue to plague the overall market, and the normal yield levels are a testament to the challenging situation investors with Stavanger exposure are currently facing.

› Major transactions in the region so far in 2017:

- The Norwegian Bank building (Domkirkeplassen 1) acquired by Camar Eiendom
- ‘Sunde Gården’ (Løkkeveien) acquired by K2 and Camar Eiendom
- Dusavika portfolio acquired by EQT from Smedvig Eiendom



Source: Malling & Co/FINN.no



# DRAMMEN

Our Drammen office continues to experience a high level of activity in the region, although at a slightly slower pace than experienced during the past two years. The city is located less than 40 km west of Oslo, and can be categorised as something between a city and a suburb of Oslo. The city is capitalising on its seaside location and role as a hub for both railways and the main road systems connecting all major cities and densely-populated areas on the west side of Oslo. The total stock of 1 300 commercial properties in the Drammen area (including Nedre Eiker and Lier) comprises around 750 000 m<sup>2</sup> of office space, 600 000 m<sup>2</sup> of retail premises and 800 000 m<sup>2</sup> of industrial/logistics/mixed-use premises. Vacancy in Drammen is around 7 % for office space and as low as 4 % for industrial/logistics premises.

## The Rental market

The rental market for commercial property in Drammen is characterised by stability, yet there are significant differences between office, retail and industrial/logistics premises. The different segments are highly location dependent, and market mechanisms in Drammen may therefore vary greatly.

### Office

Reports of less-than-usual activity for the rental of both new and existing office spaces continues. However, an increasing share of conversion potential for old, worn down office space and commercial spaces close to the city centre has been observed due to the strong increase in residential prices. This will absorb space that would otherwise affect the supply and vacancy balance in the short term. We have also observed this in the decrease in the vacancy level by two percentage point, to 7 %, since our last report. The decrease in vacancy has in part been due to several relocations to newbuilds and renovation projects for which contracts were signed in 2015 and 2016, but where the tenants have only recently moved into their new offices. We do however expect vacancy to increase again slightly in the second half of 2017, as new office projects are launched in the open market. The most prominent projects to contribute to the increase will be centred around Strømsø Torg, from Christensen Eiendom and Bane NOR Eiendom, respectively.

We believe that the above-mentioned new projects close to public transport hubs are a driving factor for the increased rent levels. However, as new office space becomes increasingly efficient, the ratio of employees

to square metre is also increasing. The total sum of the rental agreement is therefore not simply the product of the real increase in rent per square metre. Landlords look at the total revenue of the building, while tenants look at the final bill for their office space.

Worth mentioning is the progress of the ‘Office destination Drammen’ project initiated by the major Drammen developers together with the Chamber of Commerce. The foundation of the project is to create a collaborative platform for marketing Drammen as an office city. A successful campaign has already been launched, with project presentations and visits from interested parties.

### Logistics

This segment is still characterised by very low vacancy in the region. In terms of demand for medium and large spaces, we see that the transformation of land-intensive businesses in key areas of the logistics, industrial and production sectors is still influencing the demand for mixed-use properties. This is especially true for space close to the E18 and other highway systems.

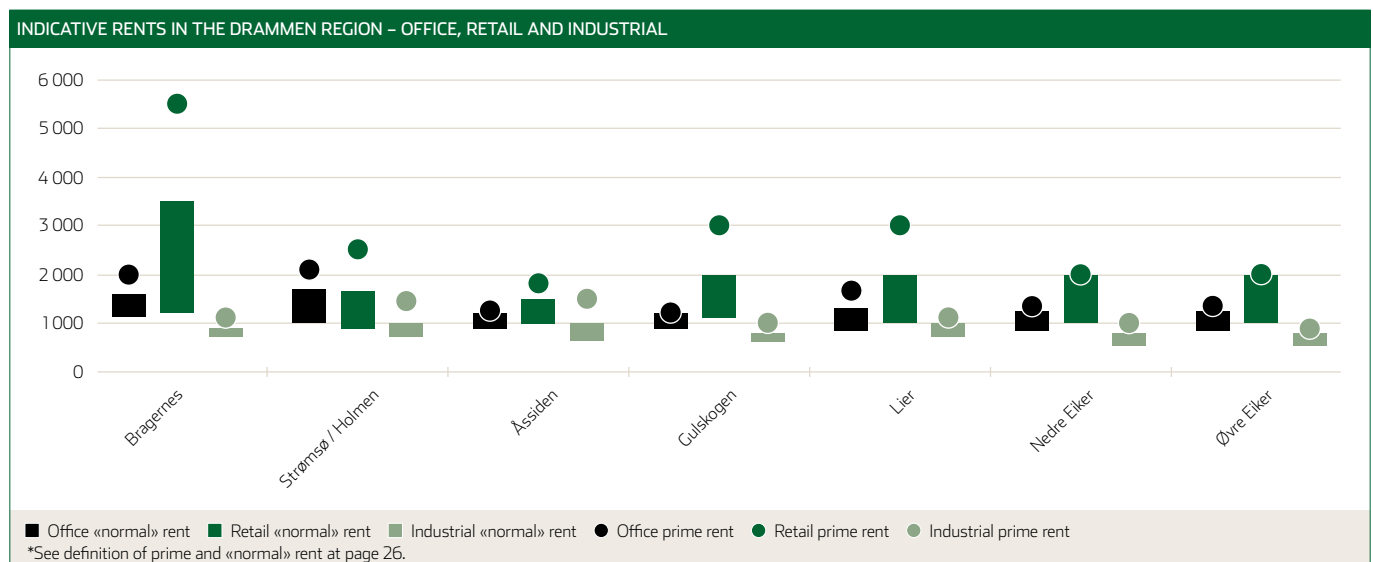
### Retail

There are few new sites and locations for space-demanding retail properties available in the market, and the supply of such space generally follows the trend of the logistics and warehousing market. Some players in the retail segment are showing interest in such sites, but willingness to pay is relatively low. Major refurbishments or new constructions of such sites are therefore often marginal in terms of returns. An exception to this is boutique/shop retail, but the supply of space in this category is close to zero, especially in and around Drammen city centre.

### More rental agreements – general tendency

We are seeing a tendency towards more lease agreements being signed so far in 2017, compared with the same period of 2016. Incomplete data makes it difficult to conclude whether these variations are due to current lease expiry conditions, or if there are other underlying contributing factors.

Changes in companies’ operations and organisational structures are often a more causative factor than the actual expiration of the rental contracts. However, the conditional availability of land and the right locations for such structural changes in any given company are conditions that must



be met in order to result in a relocation. The major difference between the office market, with its abundance of good, available newbuild projects, and the mixed-use market, is the lack of suitable empty space. Our project to comprehensively map the expiration of contracts in the region is now well underway, and we are starting to see some evidence to support our views.

**The transaction market**

There was continued interest from buyers throughout 2016, but the supply was a little restrained. However, towards the end of 2016 and so far in 2017, the supply has increased and several larger transactions have been completed. Financial investors and syndicates are continuing to seek opportunities, and value-added cases in particular. Much of the focus has been on central properties close to public transport and the major thoroughways in and around Drammen. In addition, investors now have an increased focus on the residual value of the properties.

There is a marked attention to the development of office space close the train station. Proximity to rail links and the airport express train is a tangible competitive advantage. The commercial properties around the train station will take a new form in the coming years, and the changes will be drastic. Among the initiatives is a new conference hotel. This is a sought-after concept that will increase Drammen’s attractiveness to businesses. There are also plans to demolish older office buildings and replace them with new high-rise office buildings, all within walking distance of the train station. This will cater to the establishment of new office environments and significant new activity. We estimate the prime office yield to be 5.00 %, and the normal office yield to be 6.25 % in Drammen.

Many residential projects have recently been initiated in the centre of Drammen. A large volume has been absorbed, and the search for more land

and conversion projects in central locations continues. We see that this interest is stretching further out towards Kongsberg, especially if there are opportunities close to railway stations. Several potential projects are expected to surface in the near future.

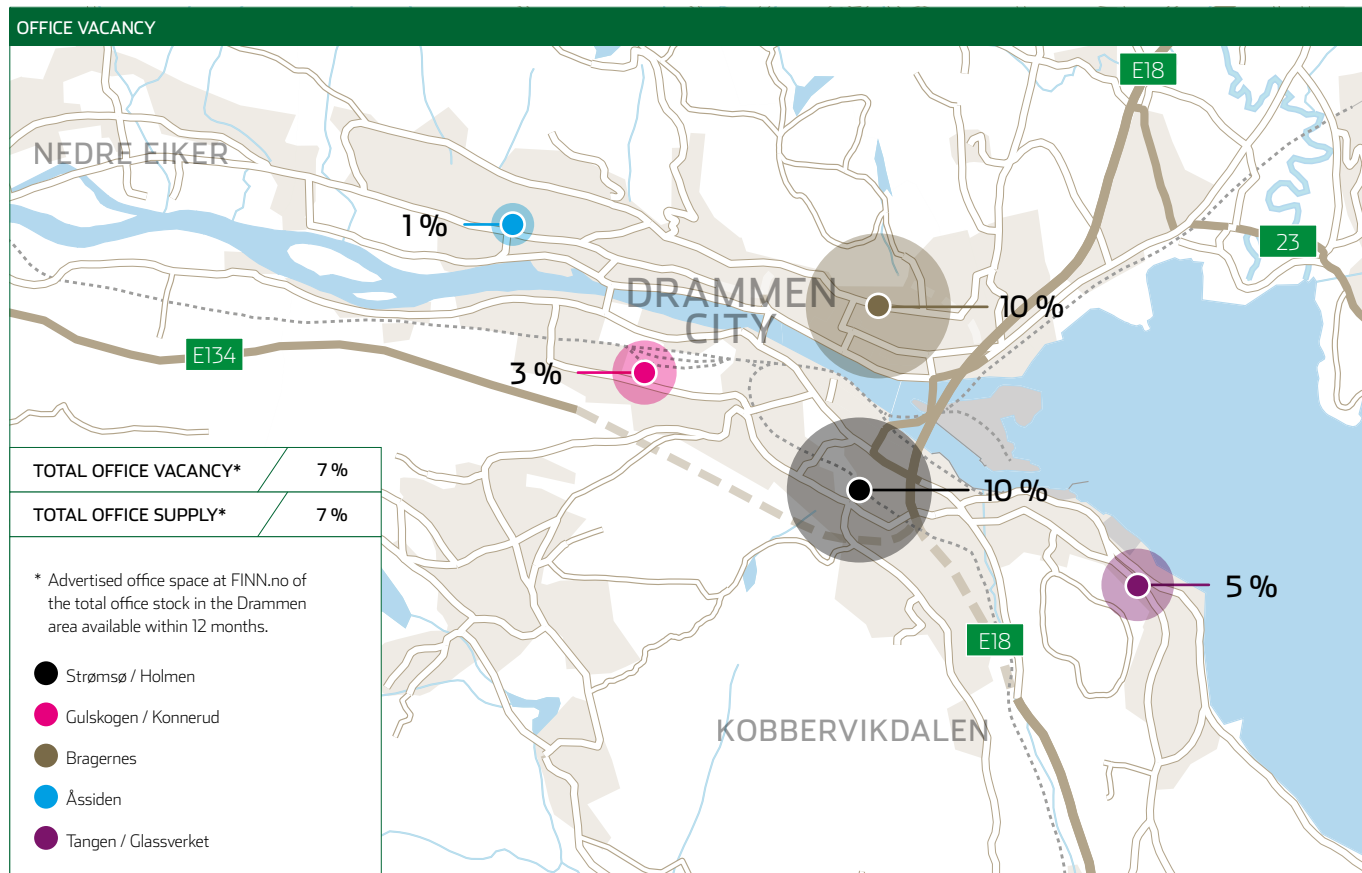
In general, have observed that interest in mixed-use warehouse/office space in the region is very high. This sub-segment makes up just below one percentage point out of the 4 % industrial/logistics vacancy in Drammen and the surrounding regions. These properties have low vacancy risk, at least in the medium term.

**Land**

The demand for land is stable, but supply is limited as few new plots of land are zoned for commercial use. This is evident for example in Røyken Business Park, where only five out of 32 plots are available.

**Latest news**

- › Bergø Eiendom in the sale of Bjønndalsvegen 7 AS. The office building comprises around 4 500 m<sup>2</sup>, and is fully let to Lindorff.
- › Christensen Eiendom in the sale of Rosenkrantzgaten 15-17 in Drammen city centre. A 5 836 m<sup>2</sup> office building, with a majority of health-related tenants.
- › BGM Eiendom AS is handling the sale of two retail and warehouse properties in Drammen; Ingeniør Rybergs gate 44 and Knud Schartums gate 7.
- › Løkke Invest AS in the sale of three warehouse buildings in Spikkestad, outside Drammen. Total of approx. 10 000 m<sup>2</sup> for future development, close to new road connection between E6 and E18.



Source: Malling & Co/FINN.no

# OSLO RETAIL

## Expectations of increased growth

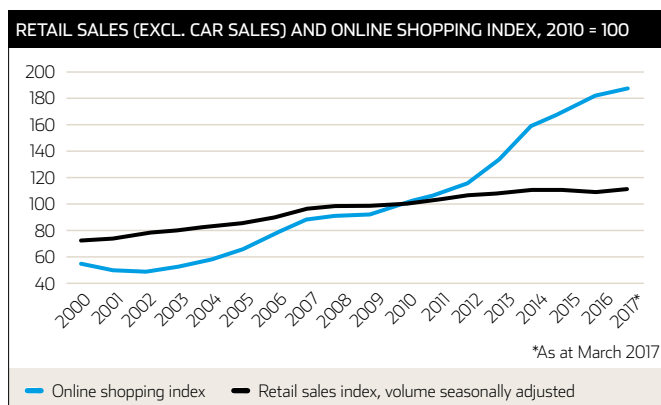
With sluggish economic growth over past year, combined with increased unemployment and an increased threat from internet sales, the retail sector has experienced a weaker development than in previous years. Considering the fact that real wage growth has been negative throughout 2016, the revenue increase in Oslo may be interpreted as less weak than figures suggest. We have also observed strong growth in internet sales, but according to revenue figures from Statistics Norway, these only constitute around 4 % of the total retail revenues.

### Oslo city centre remains strong

According to figures from Statistics Norway, retail revenues (excluding internet sales) increased by 1.5 % in Oslo and 2.6 % for the country as a whole. Despite stagnating sales in Oslo generally, central Oslo remains strong with 4.5 % revenue growth from 2015 to 2016. The retail sales volume index also shows a weak development, with a flat index since 2014. However, predictions of increased economic growth and increased private consumption will hopefully materialise and result in higher growth this year. The first quarter national accounts released on 16 May indicate that private consumption has increased by 0.6 % compared to Q4 2016. Expected increased real wage growth over the next few years should trigger higher private consumption.

### More restaurants and fewer cars in Oslo

The competition for secondary retail space has become sharper between restaurant concepts and traditional retail, and several new restaurant concepts have recently opened. Secondary retail locations are particularly attractive for restaurant concepts. Proposals to reduce traffic in central Oslo continue, and have finally materialised into a concrete plan consisting of six test areas within a specified area that stretches from Aker Brygge in the west, to the eastern part of Kvadraturen in the east and ring road 1 in the north. Parking areas will be removed and the streets filled with other activities in order to improve attractiveness. If the plan is successful, the number one shopping area in Oslo, in and around Karl Johans gate, will probably benefit the most.



### Development projects are creating opportunities for tenants

As mentioned in our previous report, the project at Kongens gate 21, located at the edge of Kvadraturen just one block away from prime retail space in Karl Johans gate, is ongoing. The exact shape that the retail space will take is currently unknown, since permissions are required from the planning and conservation authorities before the retail space can be clarified. In December last year, it became clear that H&M would absorb the vacant space in Karl Johans gate 14 after broadcaster TV2 signed a new lease agreement in 'Diagonale' in Bjørvika. H&M will open a new flagship store over five floors, creating one of the largest H&M concept stores in the world. The current building comprises around 9 500 m<sup>2</sup>, and will be totally rebuilt and refurbished for retail, including some office space for H&M.

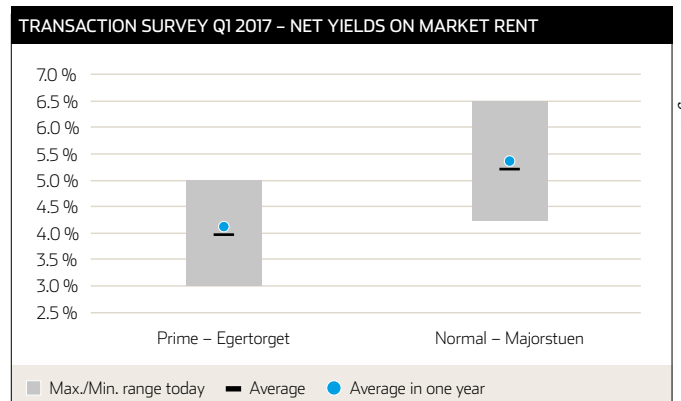
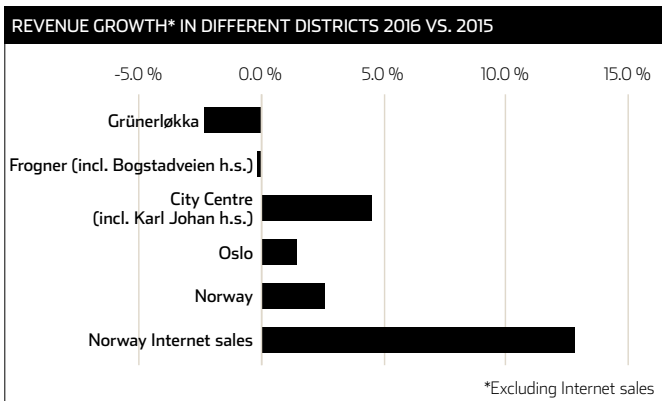
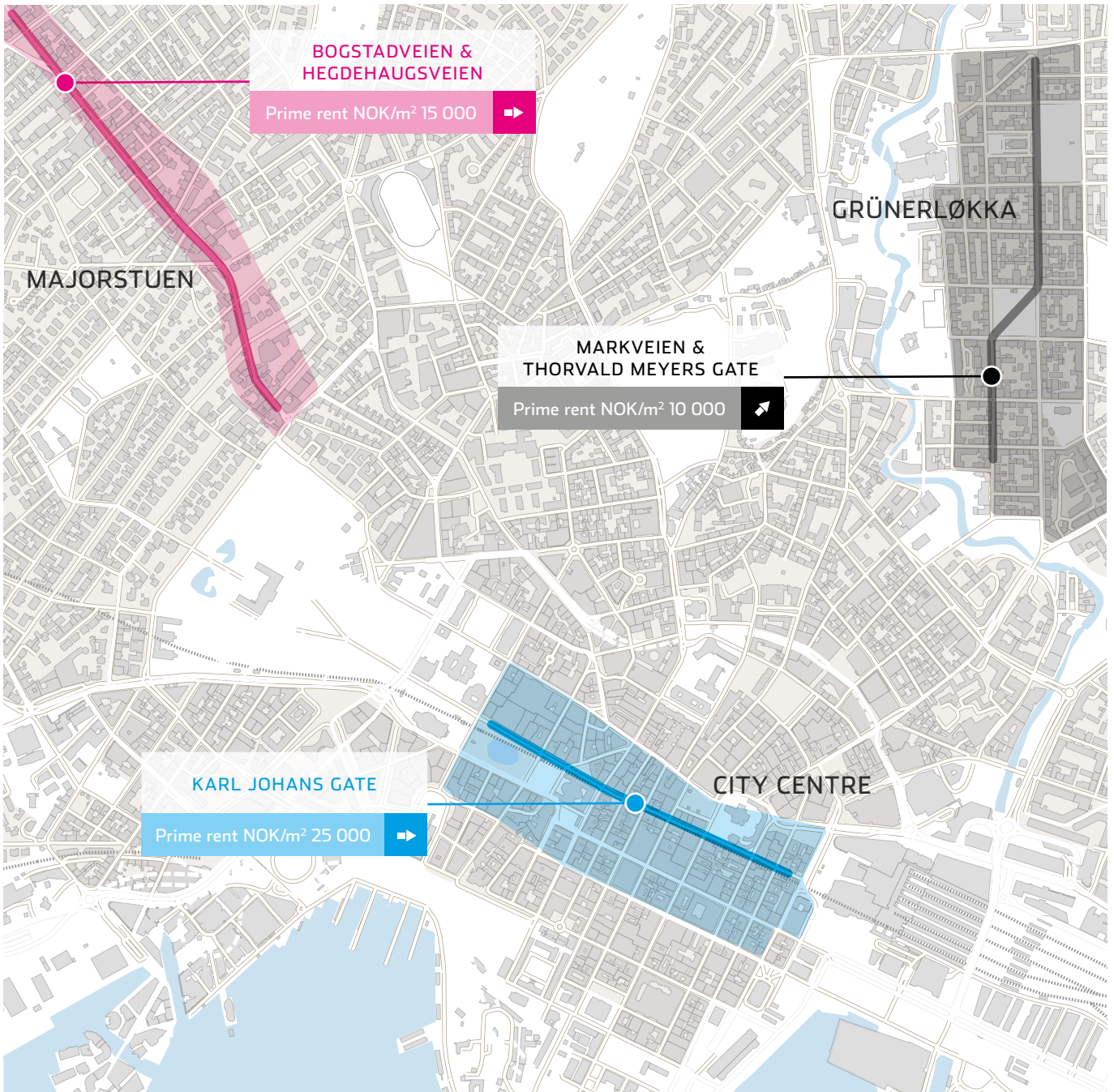
### High street retail remains highly attractive in the investment market

Both national and international investors have an appetite for retail assets in Oslo with a good location. Markveien 35 is one example of international investors taking positions in the 'up-and-coming' area of Grünerløkka. Another example of local investors looking to establish new areas is Søylen Eiendom's acquisition of the retail sections in Sørenga, which represents an interesting opportunity at the new Oslo seaside, mainly filled with restaurants. We are also aware of other assets which have changed owner since the start of the year, but these transactions are confidential at the time of writing. A number of other deals are also due to hit the market soon. The appetite for retail spans value-added cases to prime, fully-developed assets.

### Examples of retailers opening or moving

- › H&M will open their new flagship store in Karl Johans gate 14 in late 2018
- › Marimekko is about to open a new store in Øvre Slottsgate 17
- › Ganni opened a new store in Øvre Slottsgate 7 in May
- › The Genki sushi and Omakase restaurants will open new branches in Vika Terrasse
- › Other restaurant concepts worth mentioning include:
  - À L'aise in Essendrops gate (Majorstuen)
  - Vintage Kitchen will open in the listed building next to the new 'Sundtkvartalet' office complex, a short walk north of the central station
  - A new food and beverage concept comprising around 2 400 m<sup>2</sup>, with multiple bars and restaurants under the same roof in totally refurbished listed buildings at 'Youngskvartalet', will open in November 2017
  - Kverneriet burger restaurant will open at Solli plass this summer
- › Zara will move to Øvre Slottsgate 12 in Q1 2018; Zara Home will then open in the current Zara premises in Karl Johans gate 25
- › Varner Group has opened a new Volt store in the former '3 Brødre' pub premises at Egertorget in Karl Johans gate, one of the best locations in Norway's number one shopping street
- › Blender has opened an Isabel Marant store on the corner of Prinsens Gate 22
- › Negotiations between property owners and international brands not currently represented in Norway directly are currently ongoing, but remain confidential at the time of writing
- › Conmodo is opening a new mobile telephone repair shop in Kongens gate 6 in Kvadraturen





**DRONNING MAUDS GATE 10 / CBD**

Malling & Co Næringsmegling has been commissioned to lease around 13 000 m<sup>2</sup> in the office building, which will undergo a total renovation. Illustration: 3D Estate









# INDUSTRIAL & LOGISTICS

## Yield pressure

### Massive investor demand, supply can't keep up

The transaction market is currently boiling hot, as demand from investors seeking core logistics properties is met by a lack of available properties. The lack of long-lease properties in the segment has seen the prime yield drop even further, to an estimated 5.25%. However, we do have evidence that very long contracts of 12-15 years or longer may experience yields even lower than our estimated prime yield level. As can be understood from the supply gap, the attractiveness for investors is not represented in the statistics, with 16 transactions comprising roughly NOK 2.2 billion in total completed so far this year. Had the desired core properties been available in the market, we might easily have observed figures two, three or even four times these.

Activity in the rental market remains active, and several companies are expanding their current premises or developing new sites. The corridor on the eastern side of Oslo running from Vestby south of the city to Gardermoen north of the city is seeing significant activity. However, rent levels currently remain flat, and our rent estimate for prime logistics spaces remains firm at NOK 1 250/m<sup>2</sup>/year. The cluster around Lier and areas surrounding Drammen are also very attractive for tenants, keeping vacancy low. A shift in demand could trigger a rental increase, especially at the lower end of the supply spectrum.

In the long term, the emergence of goods providers based online will continue to put pressure on logistics properties close to the city centre. While these properties are also prime objects for conversion to other uses, supply will remain curtailed and rents for tenants who need immediate proximity to the city should see an increase.

### Oil & Gas and maritime industrial exposure

In our previous report, we addressed the increasing interest in Oil & Gas related infrastructure and properties tied to the maritime sector. This interest has continued into the new year, and portfolios of properties in the Stavanger region have been acquired by foreign investors and local interests. As the economic climate for Norway embarks on a slow but steady return to growth for the Oil & Gas-industry and other related sectors, the activity level on the western coast of Norway should once again increase. While these critical points of infrastructure and operations have seen a decline in value due to the gloomy outlook, opportunistic investors could very well see a healthy return on their bets as the Oil & Gas industry returns to increased activity.



INDICATIVE RENTS INDUSTRIAL/LOGISTICS (NOK/M <sup>2</sup> /YEAR)		
Area Category	Ceiling 4-6 metres (heated, high standard)	Ceiling > 6 metres (heated, high standard)
●	900 - 1000	1150 - 1250
●	700 - 900	800 - 1150
●	700 - 900	750 - 1000
●	400 - 700	550 - 850

Special fit-outs for requirements not covered in a standard building will be added to the rents above based on annuity calculation typically within 6% - 8% interest rate. The rent is set based on tenant solidity and usefulness for other tenants. The annuity length is based on the lease length. Examples of special fit-outs are: Floor capable of handling heavy loads, automated storage system, air and climate specification (e.g. fruit storage and freezing), cranes and other fixed machinery etc. Cross dockings have in general higher rent, often linked to land price and current yield, but rule of thumb for these buildings are in general 30% - 40% higher per m<sup>2</sup> than a regular storage unit.

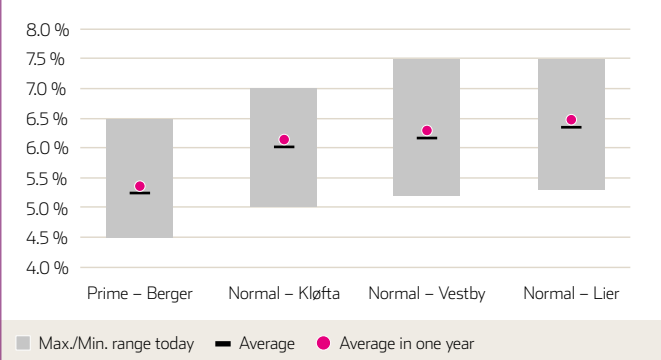
Source: Malling & Co



**ONNINEN / BERGER**  
 Malling & Co Corporate Real Estate is handling the sale of Onninen HQ in the northern corridor outside Oslo.

TRANSACTION SURVEY Q1 2017 - NET YIELDS ON MARKET RENT

Source: Malling & Co



# THE TRANSACTION MARKET

## Full steam ahead

So far this year we have registered a total transaction volume of NOK 32.3 billion\*, divided across 101 transactions\*, and a very active pipeline of pending transactions and properties awaiting to be launched in the market. Looking at the number of transactions, Q1 2017 had the highest number of transactions ever recorded in a first quarter, and the market is enjoying healthy liquidity. Interest rates and margins have flattened off after the increases witnessed in the second half of 2016, and we believe the current situation will remain for a prolonged period. As a result, we reiterate our belief that yields have now reached the trough. However, the period during which we expect to see these record low levels is projected to last for an extended period. Supporting our analysis is our newly-launched investor survey on yield levels, which indicates an expectation from investors that the yield levels will marginally increase over the next year. In terms of volume in direct investments, the share of international buyers has returned to a level which supports our observations of foreign investor interest in the Norwegian market, and is currently\* at 29 %. The strength of combined domestic and foreign interest has triggered a revision of our full year estimate for 2017, increasing it by NOK 15 billion to NOK 75 billion.

### The banks are back

With most, if not all, domestic banks reaching capital requirements by end of 2016, we are now seeing an increased interest in lending towards commercial real estate. However, the availability of bank financing seems to come at a price. Reports suggest that banks have become more stringent on the loan-to-value ratio, and margins have remained flat after an increase in 2016. This is happening at a time when the banks' funding costs have actually decreased slightly following the surge in interest rates in the second half of 2016. While the domestic banks were notoriously 'in hiding' last year, some international banks entered the Norwegian market for the first time. Moreover, these banks are signalling that they are here to stay, although their preliminary market share is low compared to the main domestic banks. While these events were unfolding in the regular bank financing scene, the bond market saw a resurgence in demand from former direct real estate investors, the life insurance companies. For several large companies, new capital requirements shifted the attractiveness from owning real estate directly, to holding real estate exposure through bonds. The market was only too happy to provide financing opportunities for bond facilitators and their new customers, becoming an important driver for the continued liquidity in the transaction market. Going forward, we expect to see the banks and the bond market providing ample opportunities for leveraging the plentiful equity we continue to observe as being in pursuit of real estate exposure.

### Equity is scouring the country

Equity continues to be plentiful, and the search for good investment opportunities is relentless. While there is still a steady pipeline of new objects presented in the marketplace in the larger Norwegian cities, albeit too small to satisfy demand, other regions of Norway have come to life. Investors have started to invest in other regions to a far greater extent than we have witnessed in a long time. The share of the total volume is close to 30 % so far in 2017, and in terms of the number of transactions we are looking at around a 35 % share of the market. This is not a solely domestic investor phenomenon – multiple foreign investors have also made regional investments, with some of them being quite sizeable, a trait which naturally holds appeal for many institutional foreign investors.

### Office and retail space dominates the volume, but logistics...

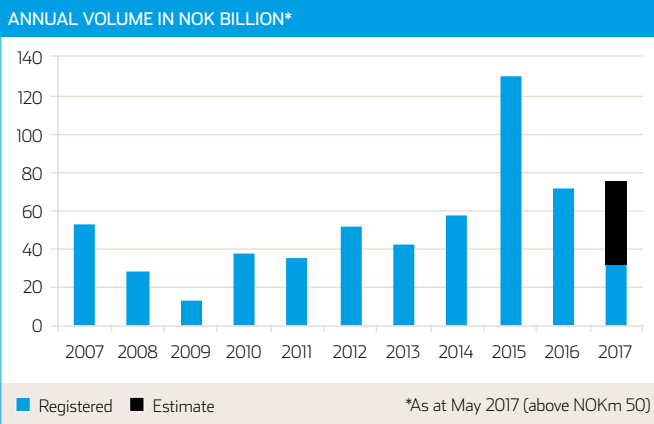
Constituting half the total volume, office space continues to be the backbone of the transaction market. Simultaneously, the attractiveness of the Norwegian wallet ensures that retail space continues to be a highly sought after segment for investors, with close to a 25 % share. Logistics, on the other hand, is a classic case of the effects of a high demand, low supply situation. Although the logistics market has a very low share of the volume, demand from investors for core properties in this segment is insatiable, resulting in a very strong downward pressure on yields (more information can be found in the Logistics section). Residential space has been very popular throughout the first quarter of the year, with a share of just over 10 %. However, as mentioned in the Macro Norway section of this report, we expect this segment to cool off going forward.

### Prime yield level at 3.70 %

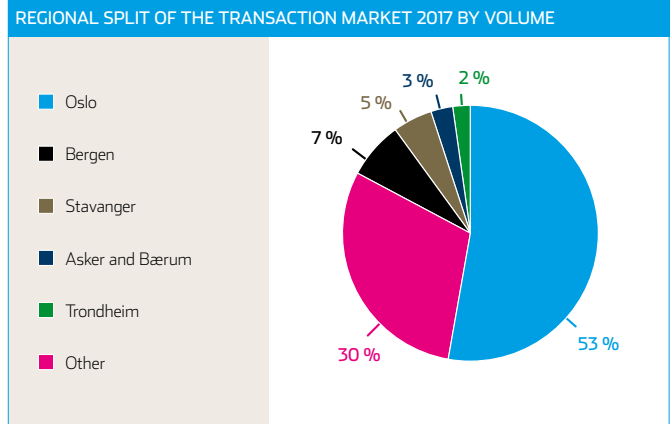
Based on our new survey-based investigation of the yield levels, we estimate the prime office yield to be 3.70 %, in line with our view that we have seen the trough of the yield curve for the time being. As mentioned in the introduction, both investors and our own analysts expect this level to only marginally increase over the next year. However, the estimate for normal property has been revised significantly since our last report, with a decrease to 5.20 % for the western fringe represented by Lysaker, and 5.40 % for the eastern fringe represented by Hølsfyr. Our forecast for the normal yield is an expectation of a relatively flat development over the next 12 months. Both our analysis and the current market sentiment support a projection of this being the bottom of the cycle, but the period will be supported by expectations of low interest rates for at least the next few years.

SELECTED MAJOR TRANSACTIONS 2017				
PROPERTY (ADDRESS/NAME)	TENANT	SELLER	BUYER	SIZE (NOK MILLION, PROPERTY VALUE)
DNB HQ – Middle Building	DNB	Meteva	SBB	4 300
Karl Johans Gate 12/Kirkegata 32	Comfort, Nike	Partners Group	CBRE Global Investors	Est. 1 000 +
Nils Hansens Vei 25 (forward)	KRIPOS	Pecunia	Arctic syndicate	Est. 960 +
Strandveien 4-8	Lundin	Ferd Eiendom	Oslo Areal	920
Entra Portfolio Kristiansand	Multiple	Entra	SBB	863
Mediegården (Stavanger)	Multiple	Union Real Estate Funds	Nordea Liv	777
Agder Energi HQ	Agder Energi	Kristiansand Næringssselskap	Arctic syndicate	560

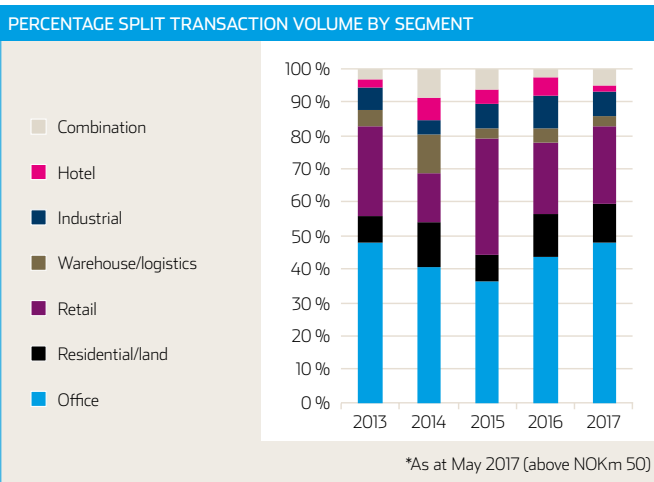




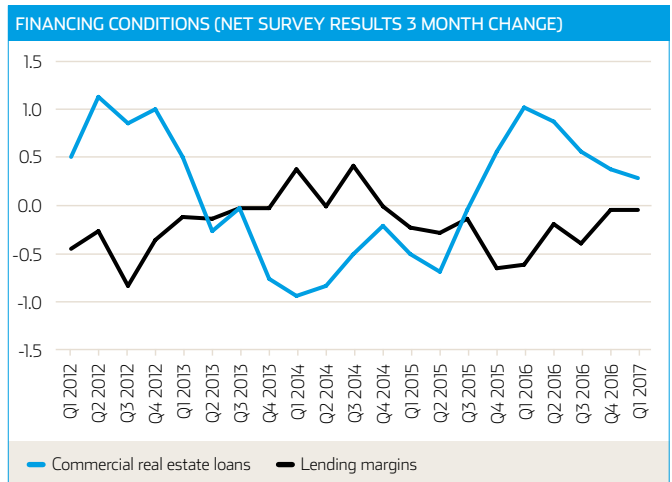
Source: Malling & Co



Source: Malling & Co



Source: Malling & Co

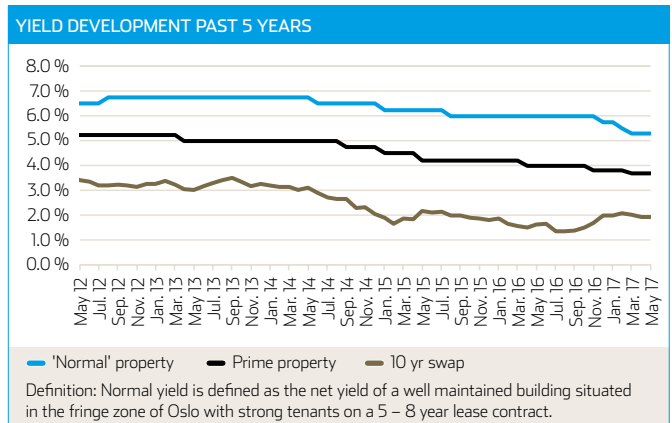


Source: Norwegian Central Bank Lending Survey

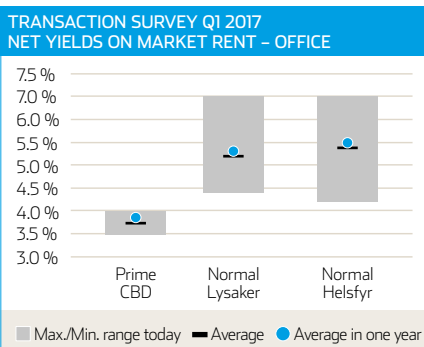
### NET PRIME YIELD IN SELECTED EUROPEAN CITIES

CITY	PRIME YIELD (OFFICE)	Δ FROM LAST REPORT
Paris	3.00 %	▲ 0 bps
Munich	3.20 %	▼ 10 bps
London	3.25 %	▲ 0 bps
Stockholm	3.50 %	▲ 0 bps
<b>Oslo</b>	<b>3.70 %</b>	<b>▼ 10 bps</b>
Amsterdam	3.70 %	▼ 40 bps
Vienna	3.75 %	▼ 25 bps
Copenhagen	4.00 %	▲ 0 bps
Milan	4.00 %	▲ 0 bps
Helsinki	4.00 %	▼ 10 bps

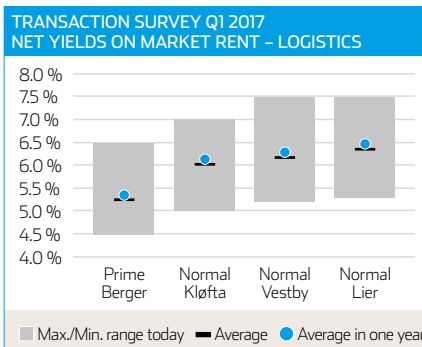
Source: Malling & Co



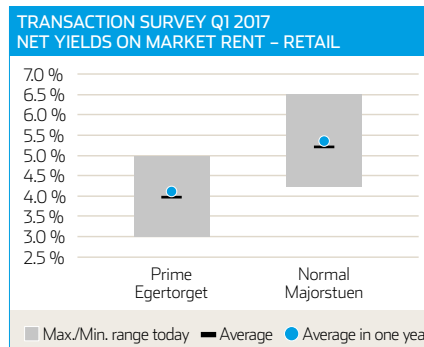
Source: Malling & Co/DNB Markets



Source: Malling & Co



Source: Malling & Co



Source: Malling & Co

## GUEST COLUMN

### The office rental market – reasons to be cheerful!

After the significant drop in oil prices at the end of 2014, rents started declining almost immediately. However, this decline did not accelerate, and never became greater than around 5-10 %. Throughout 2015 and early 2016, the market moved sideways before seeing solid gains in late 2016 (Figure 1). In other words, a significant drop in oil prices had very limited consequences for office rents in Oslo.

Rents reached a new quarterly all-time high in Q4 2016, and in Q1 2017 the 12-month growth rate reached around 12 % (Figure 2). Interestingly, the market is not being led by the top segment this time. Arealstatistikk's Category A also indicated that rents were starting to increase in the second half of 2016, after a slightly greater drop in the aftermath of the oil price crash. However, a new all-time high has not been reached (Figure 3).

It also appears that rents in the western regions of the Oslo office market have turned around. Here, rents fell by close to 15 %, and bottomed out in early 2015. Rental growth appeared to accelerate throughout 2016, but remains below the all-time high observed in 2014. Of course, these were the areas with the highest proportion of Oil & Gas related tenants (Figure 4).

Another metric that indicates strength is the large and increasing portion of the market seeing rents above NOK 2 500 per m<sup>2</sup>. At the time of the previous all-time high in 2014, leases above NOK 2 500 per m<sup>2</sup> constituted just over 20 % of the market. For Q4 2016 and Q1 2017, this segment constitutes around 25 % of the market.

Going forward, the expiration profile for leases also looks very favourable.

A much higher number of lease expirations in 2018, 2019 and 2020 than in 2017 indicates that the volume of leases will be high at least throughout 2018.

Furthermore, a very large share of the leases due to expire during these three years have high rents. Almost 60 % of the expiration volume in these years is comprised of tenants currently paying over NOK 2 000 per m<sup>2</sup> (in 2016 NOK). By comparison, this is true of only 43 % of the expiration volume in 2017.

When looking at tenants with expiring leases paying above NOK 2 500 per m<sup>2</sup>, the difference between the 2018, 2019 and 2020 figures and those for 2017 is even more favourable. 29 % per cent of tenants with leases expiring in 2018, 2019 and 2020 currently pay more than NOK 2 500 per m<sup>2</sup>, while only 19 % of the tenants with leases expiring in 2017 pay this much (Figure 5).

All else being equal, this will likely lend significant support to the market throughout the rest of 2017.

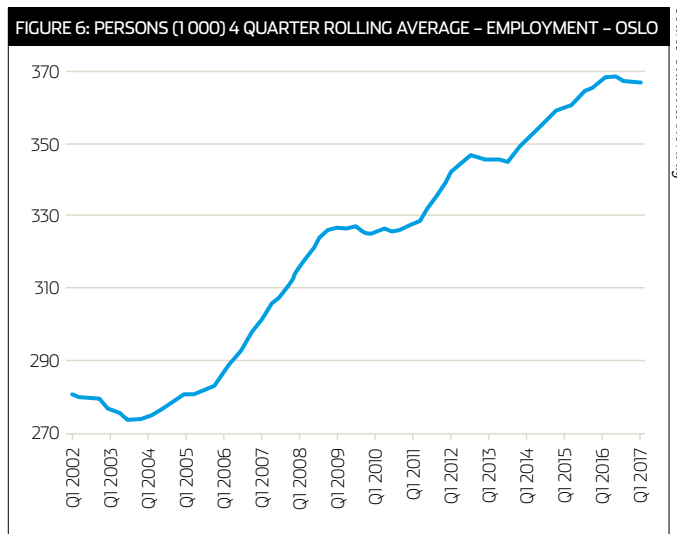
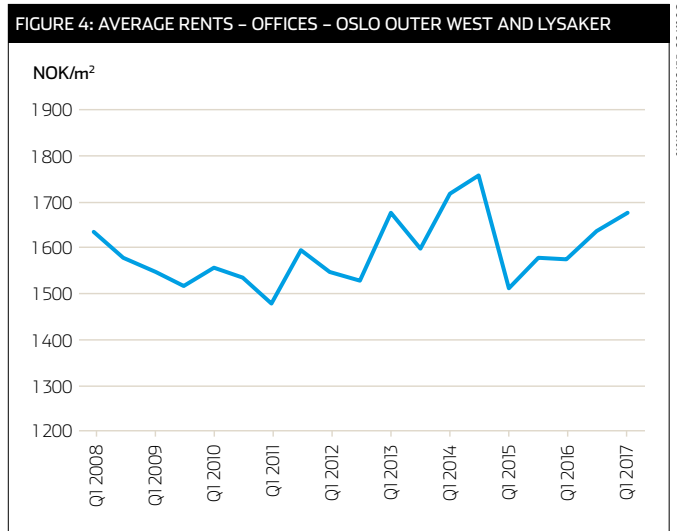
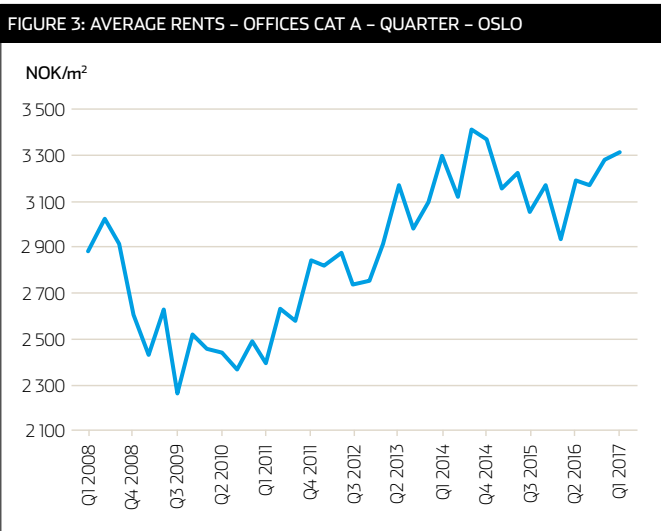
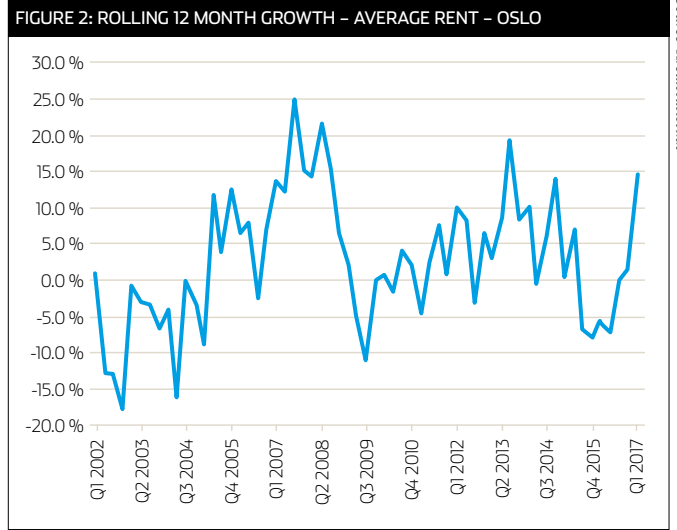
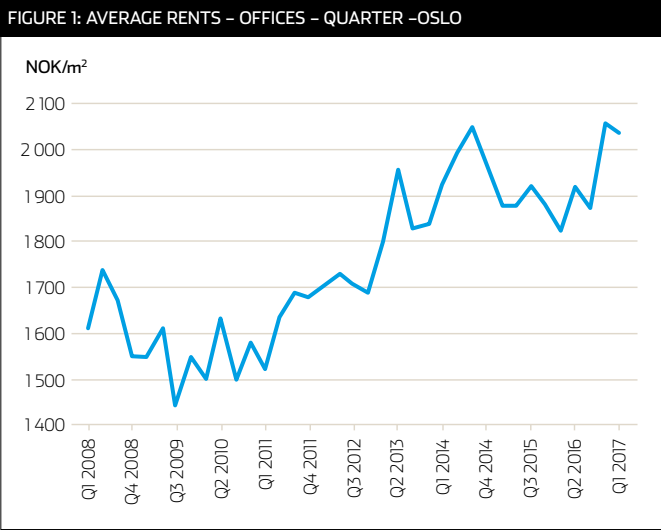
It is also worth noting that in a historical perspective, a 12-month growth rate of 12 per cent is not particularly high. As shown in Figure 2, before the financial crisis 12-month growth rates reached 20-25 %.

This growth, however, was supported by a much stronger labour market. So far in 2017, employment has not yet started growing (Figure 5). That we have seen a fairly strong rental market in the face of a lacklustre labour market may indicate that there will be a significant upturn in rents if employment starts to grow again.

On the other hand, however, the market may also have been helped by the large volumes of conversions from office to residential space. If so, a stagnating housing market could pose a risk to the office rental market.



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**Malling & Co offer services throughout the entire supply chain and benefit from synergies between the units**

Eiendomshuset Malling & Co is among Norway's leading advisor and service provider within the field of commercial real estate. We have acquired our knowledge and experience over more than 50 years. Our two divisions, Markets and Management, have a total workforce of approximately 170 employees. We offer services in the fields of management, rentals, transactions, valuations, analysis, consulting, tenant representation, energy and environment and project management.

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